

CDM Highlights 47

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

Editorial

Dear reader!

There is no sign of the CDM project pipeline slowing down; proposed and registered projects have passed the 2 billion CER mark. However, the black and white sheep among the project developers start to emerge. Negotiations on CER sales contracts may become more balanced with the publication of a contract template developed by mainly developing country lawyers.

Anja Wucke, GTZ and Axel Michaelowa, Perspectives

UNFCCC, EB and its panels

The Meth Panel met from 26-30 March, making the following recommendations:

- Approval of eight methodologies. Two regard fuel switch (oil-gas in fertilizer plants, , one each cogeneration, waste incineration (to be included in AM 25), primary N₂O abatement from nitric acid, grid operation to optimize hydropower and waste heat recovery. This is the first time that a majority of methodology assessed is recommended for approval!
- Revision was suggested for four methodologies: air conditioner replacement programme, substitution of a specific chemical, fuel switch (two methodologies). If the air conditioner programme manages to revise properly, a large new programme type would be opened up.
- Rejection is proposed for four methodologies: biofuel from palm oil, CO₂ recovery from fertilizer production, energy efficiency (two methodologies).
- Regarding the measurement of methane emissions from reservoirs of hydro power plants of less than 4 W/m², the panel asked for extra expert input
- ACM 3 for alternative fuel use in cement plants may not be used for plants where alternative fuels are already used before the project start but this issue will be considered in the next revision
- Renewable electricity projects exporting power to other grids should submit a request for deviation when asking for validation. A general revision of ACM 2 was not found to be warranted due to the project-specific issue of tracing electricity use in the grid where it is exported to.
- Both the validator or the verifier of a N₂O project are allowed to determine the permitted operation conditions for the baseline campaign.
- ACM 4 shall be expanded by AM 32 to cover waste heat use other than electricity generation and allow export of surplus energy to the grid/other consumers. This would significantly enhance the potential of this project type. The Panel could not agree whether investment analysis should be mandatory for greenfield plants using this methodology. There may be a hiatus for such projects during the period where ACM 4 is withdrawn.
- A stringent approach on leakage due to shift of pre-project activities is proposed that also includes cases where there is no direct land use change (e.g. biofuel from existing palm oil plantations), arguing that indirect effects would still lead to a shift (e.g. that palm oil use for biofuels would lead to deforestation elsewhere as palm oil demand for non-biofuel purposes would have to be satisfied).

The AR Working Group met from 19-21 March, making the following recommendations:

- To considerably soften the eligibility conditions for land, by stating that it is sufficient for land deforested after 1989 to “provide transparent information that demonstrates that the land was not intentionally converted to non-forest land for the purpose of implementing an A/R CDM project activity”. This allows a lot of interpretation and will certainly lead to pressure from environmental NGOs on the EB.

- Guidance how to calculate the number of sampling plots.

The Small Scale Working Group met on 19-23 March and proposed:

- new methodology III.L "Avoidance of methane production from biomass decay through controlled pyrolysis" and III.M "Reduction in consumption of electricity by recovering soda from paper manufacturing process". The methodologies become more and more specific...

Designated National Authorities

- The German government envisages reducing the fee for DNA approval to 20 – 600 Euro per project in its draft emissions trading law. This would remove a serious obstacle to approvals in Germany that can cost up to 20,000 Euro under the current fee structure
- The DNA host country approval hitlist stands at
 - India: 599 projects (+86), including 197 biomass power and 166 energy efficiency, with a total estimated CER volume of 384 million. However, the missing up-date of the Indian DNA's website casts a shadow on its otherwise impressive performance.
 - China: 379 projects (+39). The new approvals include 26 hydro, 5 wind, 4 waste heat recovery, 2 landfill gas and 2 biomass plants. Total annual CER volume is estimated at 7 million per year of which 2 million from one waste heat recovery plant.
 - Mexico: 156 projects (+0)
 - Brazil: 132 projects (+14), of which large projects such as Plantar (see past issues) and N₂O reduction from nitric acid but also 8 very small energy efficiency projects
- The DNA investor country approval hitlist stands at
 - UK: 274 projects (+64). Total CER volume is estimated at 102 million (+9).
 - Japan: 135 projects (+9), with an annual CER volume of +0.7 million
 - Spain: 51 projects (+3)

Project developers

- Large new projects in the pipeline are
 - Two coal mine methane projects (China, 15.6 million CERs and 5.1 million CERs by 2012)
 - Methane capture from dairy cattle (Pakistan, 6.1 million CERs by 2012)
 - Coal mine methane (Mexico, 3.2 million CERs by 2012). This is the first CMM project outside China
 - Gas power plant (China, 4.2 million CERs by 2012)
 - N₂O reduction from nitric acid (China, 3.1 million CERs by 2012)
- The company Green Gas has quietly built up competence in all aspects of coal mine methane and landfill gas capture, buying German G.A.S Energietechnologie with 110 MW installed capacity of CMM electricity generation, Hofstetter Umwelttechnik who is world leader in flaring technology and MegTec Systems from Australia who can use low-concentration methane streams for electricity generation. It has teamed up with Standard Bank of South Africa.
- AgCert had to pay 50 million Euro to get out of a large CER delivery contract that it could not fulfil. Its total loss in 2006 reached a staggering 94 million Euro after 19 million in 2005. It tries desperately to raise new money.
- Camco International has acquired the large climate and energy consultancy ESD (120 staff) for 15 million Euro and thus has now large inhouse capacity to develop projects. Its current CER portfolio reaches 119 million.
- Trading Emissions has invested 75 million Euro in equity of project developers, traders and a hydro power plant. Its total CER portfolio is estimated at 58 million.
- Russian Gazprom is buying CERs
- The Asia Carbon Exchanges - ACX's - latest auction traded 0.7 million CERs out of 2 million at offer at a price of 10.4 Euro/CER.
- The Indian Federation of Indian Chambers of Commerce and Industry is organizing a CER sales pitch for 12 of its member companies in the UK.
- The CDM Industry Association of South Africa held its first meeting in March and elected Johan van den Berg of consultancy CDM Africa Solutions as its chairman. The association wants to reduce bureaucratic bottlenecks in CDM project development in South Africa.

- The Indian power ministry tries to find new users for fly ash from coal power plants as the targeted use rate of 42% was missed by more than two percentage points. Cement plants are seen as important possible users to solve this problem and could develop further CDM projects
- The EU is preparing its third CDM project, a landfill gas capture in Malta. Earlier, two wind projects in Cyprus had been registered.
- Adding a project participant can be a headache for CDM project developers. It is formally only completed if the UNFCCC Secretariat has published the revised statement of modalities of communication and the DNA approval letter for the new participant.

GTZ Capacity Development

- GTZ participated at the first Middle East and North Africa Carbon Forum, organised by the World Bank CF-Assist Capacity Development Initiative in April 4-5, 2007 at Rabat, Morocco. More than 80 project developers, buyers and DNA representatives participated and contributed with presentations to a knowledge platform. Presentations will be available soon in the Internet.
- GTZ is going to present its lessons learned in CDM Capacity Development in Ghana, India, Indonesia, South Africa and Tunisia at a side event during the climate negotiations in Bonn. It will take place in the Ministry of Environment on Thursday, 10 May, 13:00 – 15.00 together with presentations of other EU Member states on Kyoto-Investments.

Incentives for CDM investment

- The Canadian government formally abandoned its Kyoto target by announcing stabilization of greenhouse gas emissions at current levels by 2010 and a 20% reduction from there to 2020 (echoing the magic number of the EU?). Industry should reduce its emissions intensity by 6% /year until 2010 and just 2% thereafter; these targets shall be the base for emissions trading. While confirming the price cap of 15 can \$ (about 10 Euro) the government specified that CERs can be used up to 10% of the total allocation of industry. Whether this rekindles demand from Canada remains to be seen.
- In the final version of the Spanish allocation plan, Spanish electricity producers got a 42% CER use threshold, while the other sectors are allowed only 7.9%
- Norway joined the EU bloc with the announcement of a 30% reduction target for 2020 and even envisages becoming fully GHG neutral by 2050
- A new fund - European Clean Energy Fund – that aims at “attractive returns” as well as CERs as its main investor Swiss Re claims, has been closed at 330 million Euro.
- German KfW announced its willingness to buy up to 10 million CERs for its own books in 2007.
- The European Investment Bank has set up a technical assistance facility that finances PDD development; its size is 5 million Euro
- The Japanese government has acquired 6.3 million CERs from six CDM projects up to now.
- The exchange Nord Pool followed Powernext (see last issue) to announce a CER spot contract. Nord Pool will start trading contracts on June 1 with delivery dates in December 2008 and 2009 regardless the status of the ITL.
- The Dominican Republic has passed a renewable energy law providing tax incentives. It is expected to mobilize investment in CDM wind power projects.
- The Indian Prime Minister’s Office has asked the Urban Development Ministry to submit all municipal bus system projects under the CDM. This may lead to an increase in attention to the methodological problems of transport projects under the CDM

Web news and downloads of the month

- The nice brochure “CDM and JI in charts” edited by IGES, Japan, has now been split up in two parts. The successor “CDM in Charts” is available at www.iges.or.jp/en/cdm/pdf/charts.pdf
- The presentations of the UNIDO workshop on energy efficiency in the CDM can be downloaded at www.unido.org/doc/64806
- Presentations from a high-level forum on post-2012 climate policy are available at www.iit.upcomillas.es/gcs2012/publications2.html
- An updated overview of the Chinese CDM market is available at www.kyoto-coaching-cologne.de/publikationen/CDM-China-Auf12-Endversion-englisch.pdf

- A detailed, critical view on the CDM in South Africa is given by Bond and Dada: Trouble in the air – Global warming and the privatized atmosphere, www.sinkswatch.org/pubs/TroubleInTheAir.pdf
- An overview paper on CDM in India is available at www.unctad.org/en/docs/ditcted20065_en.pdf
- A new commercial Indian CDM website has been set up at www.carbonyatra.com
- Job offers in the CDM market can be found at www.carbon-financeonline.com/index.cfm?section=jobs

Other news

- Due to the fact that all existing templates for CER sales contracts are biased in favour of the buyer, a group of over 20 CDM lawyers, most of which come from developing countries, has developed an equitable CER Sale and Purchase Agreement (“CERSPA”) template, which will be launched at Carbon Expo. The drafting of CERSPA was sponsored by the Inter-American Investment Corporation.
- Carbon Expo, which is held in Cologne on May 2-4 for the fourth time, will have 162 exhibitors and around 2500 participants

Country of the month: Pakistan

Quietly, but consistently, Pakistan has developed a CDM strategy over the last years and is starting to reap the benefits. Pakistan’s environment minister Malik Amin Aslam is probably the environment minister worldwide with the deepest knowledge in the CDM, as he did research on CDM already in the late 1990s when heading a small NGO called Envork. Due to his patient work, Pakistan ratified the Kyoto Protocol in January 2005 and its CDM strategy was formalized in February 2006 (download at http://cdmpakistan.gov.pk/ver1/cdm_doc/Pak%20CDM%20Strategy-%20Approved.pdf). The DNA, which is guided by the Prime Minister’s Committee on Climate Change, consists of the National CDM Steering Committee, Technical Committees and the CDM Secretariat. The Steering Committee has members from nine ministries and four agencies as well as NGOs and the private sector. Technical Committees have been set up for energy, waste and forestry/agriculture. CERs will not be taxed. The Secretariat screens submitted PDDs within 30 days according to a set of 13 criteria, among which are: creation of new jobs, positive impacts on local communities, improved equity, improved balance of payment and cost-effectiveness. The government is supporting CDM capacity building with 0.5 million Euro; two workshops were held in February and November 2005. A two-day training on PDD development for wind projects was organized by GTZ and the Alternate Energy Development Board in March 2006 with over 40 participants. Sweden plans to support a further workshop.

The DNA has a good website at cdmpakistan.gov.pk The first project was approved in April 2006 registered in November 2006, a large N₂O reduction from nitric acid production (investor: Mitsubishi, Japan) estimating 1 million CERs annually. New Zealand supported a feasibility study for a huge methane collection and electricity generation project in a 1 million cow dairy unit near Karachi with 25 MW capacity. This project, which is also supported by the ADB, could generate around 1.5 million CERs per year and has just been submitted for validation. Mitsubishi Securities has submitted a new methodology for efficiency improvement of a 165 MW oil-fired power plant in Karachi, aiming at 0.15 million CERs/year that is likely to be approved at the next EB meeting. There is large wind and hydro power potential (40 GW) in the country, promoted by the Alternate Energy Development Board. Regarding the latter, the work in GTZ’s Hydropower Promotion Project (www.pakistanhydro.com) could be a good basis. According to Aslam, more than 10 projects are currently in the pipeline. Also, the first local CDM consultancy, Carbon Services, has been set up. However, the long discussed landfill gas project in Lahore has not been able to overcome the red tape, showing that substantial barriers for CDM implementation exist.

Numbers of the month

2.02 billion CERs: estimate of registered and submitted projects until 2012. The real number is likely to be substantially lower due to failures on several steps of the project cycle.

50 million Euro: loss of AgCert due to renegotiation of a major CER contract. This sum could have bought 5 million CERs...

CDM counter (as of April 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: 148
- Projects that are undergoing and have undergone the public comment period: 1351
 - Of which 122 have officially applied for registration
 - for 22 of which a request for review has been launched
 - Of which 11 have to make corrections
 - Of which 1 are undergoing review
 - Of which 14 have been rejected
 - Of which 4 have officially been withdrawn
- Expected CERs until 2012 from those projects: 1176 million
 - Of which 160 million from those that officially applied for registration
 - Of which 57 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: 633
 - expecting 864 million CERs by 2012
- Host countries: 39
- Buyer countries: 14
- Issued CERs: 44.8 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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