

CDM Highlights 48

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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 CDM project pipeline is still steaming ahead at full speed with almost 150 projects added last month while news from the UNFCCC negotiations were cautiously optimistic. However, the inability of over 50 early CDM project developers to submit their projects before the March deadline shows the challenges that developers still face.

Anja Wucke, GTZ and Axel Michaelowa, Perspectives

IPCC

In the policy-oriented third part of the IPCC 4th Assessment Report, the CDM is shown as the only international market mechanism that has actually achieved a significant scale. At the negotiation of the policymakers' summary in Bangkok, some developing countries (Peru, Brazil) wanted to stress the inequitable distribution of CDM projects and their lack of support of sustainable development. This is surprising as these countries have been actively involved in the CDM market and achieved a significant share in the overall project pipeline. Due to active counter-pressure by Spain and Germany, Peru's and Brazil's views were not reflected in the final text.

UNFCCC, EB and its panels

The post-2012 UNFCCC negotiations in Bonn stressed the need for global greenhouse gas reductions of over 50% by 2050 and the need to reach the peak of global emissions within the next 10-15 years. Annex I targets should be between 25 and 40% below 1990, but the target date could not be fixed. Brazil and South Africa tried to build a bridge between industrialized and developing countries by proposing voluntary "contributions". Russia proposed to do additions to Annex B by simple MOP decision and to negotiate voluntary commitments of Annex B countries. Negotiations about the Adaptation Fund were guided by a constructive spirit to find compromises. The question about the operating entity was postponed, but aspects of access to and use of the funds and the monetization of CER were agreed. The Fund is expected to reach about 300 Mio US\$ until 2012. India and South Africa called for an expansion of the adaptation levy to the other Kyoto Mechanisms.

The EB met from 2-4 May, making the following decisions:

- Approval of seven large and two small-scale methodologies (see last issue); the waste heat recovery methodology was given back to the Meth Panel
- Methodology revisions and rejections were done as proposed by the Meth Panel (see last issue), with the exception of the expansion of ACM 4
- Projects that got CER issuance rejected can reapply for issuance
- All projects under review were accepted for registration
- Eight projects were placed under review, four of which relate to cement blending and three to energy efficiency in cement plants. The additionality of those projects is questioned.
- Again, a DOE under spot check was not suspended
- Again, the decision on detailed rules for programmatic CDM was postponed. The EB agreed that programmes can use small-scale methodologies but that these have to account for leakage. The EB also shortened the programme duration to 28 years to make it consistent with the 7 year duration of crediting periods.

Designated National Authorities

- The Thai Cabinet discussed restructuring of the DNA and setup of a Greenhouse Gas Administration Organisation that aims to overcome the problems that have plagued the Thai approval process but apparently was unable to take a decision
- The Vietnamese Prime Minister has published a decree to promote CDM. Whether this leads to a faster pace in project development in Vietnam remains to be seen.
- The DNA host country approval hitlist stands at
 - India: 599 projects (+0).
 - China: 448 projects (+69). The new approvals include 47 hydro, 11 waste heat recovery, 5 wind, 2 large biomass power, 1 HFC, CMM, landfill gas and gas-fired power plant. Total annual CER volume is estimated at 12.5 million per year of which 3.4 million come from the HFC and 2.3 from the gas power plant.
 - Mexico: 160 projects (+4), 2 pig waste methane and 2 landfill gas projects with 0.3 million CERs per year
 - Brazil: 137 projects (+5), all small energy efficiency projects
- The DNA investor country approval hitlist stands at
 - UK: 331 projects (+57). Annual CER volume is estimated at 117 million (+15).
 - Japan: 135 projects (+0)
 - Spain: 51 projects (+0)
 - Germany: 29 projects

Designated Operational Entities

- Japan Management Association applied to become DOE.

Project developers

- 11.5 million of early CERs from 56 CDM projects will be lost due to the inability of project developers to submit PDDs in time for the end of March deadline.
- Large new projects in the pipeline are
 - Waste heat recovery from steel plant (China, 10.1 and 4.8 million CERs by 2012)
 - Gas power plant (China, 9.2 million CERs by 2012)
 - Coal mine methane (China, 2.8 million CERs by 2012)
- Ecosecurities' contracted CER volume has increased by 28 million to 156, while CER volumes beyond 2012 reach 86 million. The average forward sales price of Ecosecurities for 33 million CERs sold is 12.1 Euro, while the average cost of generating these CERs is projected at 6.8 Euro
- Swedish Kyoto credits trader Tricorona announced a CER/ERU acquisition of 14.4 million, bringing its total CER/ERU volume to 26.7 million.
- Econergy's CER portfolio has reached 11 million.
- Japan Bank for International Cooperation and Idea Carbon, a company set up by London bankers, want to develop a rating service for CDM projects.
- The first CERs from a commercial building energy efficiency project, a hotel in the Indian city of Calcutta have been issued.
- Matsushita Electric is planning energy efficiency increases at its 60 factories in China under the CDM.
- Competition in the Indian CDM project developer market has reached a new level of intensity with Ernst & Young, famous for its assembly-line PDD service, offering PDD development for a success fee of just 1% of CERs, provided that the project reaches an annual CER level of at least 20,000.

Incentives for CDM investment

- After strict EU commission decisions on the Italian (-6%) and Estonian (-48%) allocation plans, the price for 2008 EU allowances has breached the 20 Euro barrier and reached 24 Euro at the end of the month. Pre-2008 allowances continued their decline, reaching 0.3 Euro. However the Czech Republic and Poland are suing the EU Commission regarding the allocation decisions.
- The World Bank's "State and Trends of the Carbon Market 2007" report expects a cumulative CER/ERU demand of 2 billion by 2012 while supply would only reach 1.7 billion. This surprising

estimate assumes that no AAUs enter the market and that no new CDM/JI projects would enter the pipeline, which seems unrealistic.

- An IETA-commissioned survey of 150 carbon trading professionals shows an expectation of CER price increases. 86% of respondents expect a continuation of the Kyoto Mechanisms post-2012.
- ADB has set up a carbon fund for CDM projects in Asia, to which the Swiss Climate Cent Foundation and Spain have subscribed 25 million \$ each, Sweden 15 million and Austria and Luxembourg 10 million each. The projects are to come from ADB's internal pipeline.
- Norway has budgeted 25 million Euro for CER and ERU purchases in 2007, primarily from projects in small countries. Target CER price is about 12.5 Euro. Overall Norwegian demand for Kyoto credits is estimated at 45 million, so more budget allocations are expected.
- The World Bank's Prototype Carbon Fund formally announced that it has concluded all ERPAs necessary to spend its 180 million \$
- KfW and EIB unveiled a carbon fund for small and medium-sized companies with a target volume of 100 million Euro. The minimum subscription level is 0.5 million Euro. KfW expects an average price of 10 Euro per CER in its current fund.
- Finland-based Greenstream has set up a carbon fund for Finnish companies with a target volume of 30 million Euro to which five companies have so far subscribed
- The World Bank plans a fund of 5 billion \$ to finance greening of "hot air" after 2012
- Ukraine has set up a National Agency for Environmental Investments (NAEI) for negotiating sales of its hot air and channelling revenues into Green Investment Schemes.
- Belarus, which managed to negotiate an amendment to the Kyoto Protocol, actively woos JI investors. JI potential is seen as 22 million ERUs and "hot air" at 215 million AAUs over the commitment period. As the amendment is unlikely to be ratified by 75% of Kyoto parties, this additional supply will probably never materialize.
- The Indian Urban Development Ministry (see last issue) is now scrutinizing all urban infrastructure development projects for CDM eligibility

Web news and downloads of the month

- The World Bank's report on the state of the carbon market is available at http://carbonfinance.org/docs/Carbon_Trends_2007-_FINAL_-_May_2.pdf
- The presentations made at Carbon Expo are available at http://www.mc-cgn.de/km/carbonexpo/conference/download_presentations_2007/
- CD4CDM has set up a separate website for its CDM project database at <http://cdmpipeline.org/>
- A project developer's guidebook, not dedicated to CDM but very useful in that context is available at: http://unfccc.int/resource/docs/publications/pract_guide_06_en.pdf
- A handbook on financing of CDM projects has been prepared by Ecosecurities for CD4CDM and can be downloaded at: <http://www.cd4cdm.org/Publications/FinanceCDMprojectsGuidebook.pdf>
- A brochure on German CDM service providers can be downloaded at http://www.jiko-bmu.de/files/basisinformationen/application/pdf/broschuere_unternehmen.pdf
- DNA-approved Brazilian electricity sector baseline emission factors are available at <http://www.mct.gov.br/index.php/content/view/50958.html>, with an explanatory document at http://www.mct.gov.br/upd_blob/14731.pdf
- The draft UNFCCC catalogue of CDM rules can be accessed at <http://test.cdmis.net/catalogue-test>. It is relatively unstructured and will not provide a real help for people who do not know the CDM rules in detail.
- A German CDM/JI website has been set up by the Ministry of Environment, unfortunately in German only: <http://www.jiko-bmu.de/jiko/aktuell/1.php>

GTZ CDM capacity development

- On May 24, India's Environment and Power Ministers officially released an updated publication containing the official baseline electricity emission factors for India. The data are also available at <http://www.cea.nic.in/planning/c%20and%20e/Government%20of%20India%20website.htm>. The provisional numbers had been available since last autumn. The publication was prepared with GTZ support.
- GTZ supported the First African Bankers Carbon Finance Investment Forum. It took place in Johannesburg, South Africa from May 28 – 30, and was organised by UNEP and hosted by the Development Bank of Southern Africa. More information including the presentations are available at <http://www.carbonforum.co.za/>

- GTZ has edited a new module on "The CDM in the Transport Sector", as part of its "Sustainable Urban Transport" source book in cooperation with Jürg Grütter, the developer of the first methodology of an approved CDM project in the transport sector. It shows general requirements for CDM in the transport sector and analyses as a CDM case study the bus rapid transport system of Bogotá. It can be downloaded under: <http://www.gtz.de/en/themen/umwelt-infrastruktur/transport/18708.htm>

Other news

- Indian Prime Minister Manmohan Singh brought up the CDM at a meeting with US President Bush and they agreed that CDM's emphasis "has to be on greater energy efficiency and the development of new technologies"
- IETA, World Bank and the Indian business association FICCI will host a Carbon market conference in Delhi on Nov 1-3

Country of the month: Sweden

While Sweden is on track of reaching its Kyoto target and has one of the most vigorous domestic climate policy programmes, it is becoming an increasingly active player on the CDM market. Sweden was one of the most active countries in the pilot phase of Activities Implemented Jointly in the 1990s and thus collected a lot of experience helpful to embark on CDM. The Swedish CDM and JI programme, hosted by the Swedish Energy Agency has a budget of 23 million Euro aims at investing in small and medium projects, mainly in the renewable energy and energy efficiency sectors. It has ERPAs with 6 projects from Brazil, China and India. Projects should generate 0.2 to 0.6 million CERs during their first crediting period. The Swedish government invested 15 million \$ in the ADB CDM fund, 10 million \$ in the PCF and 2 million Euro in an EBRD fund. In its allocation plan for the EU trading scheme in 2008-2012, Sweden proposed an import cap of 25% for CERs and ERUs, which was reduced to 10% by the EU Commission. There is a growing private activity in CDM project development in Sweden, of 46 approved projects, 18 have been submitted by Tricorona, a CER trader and 8 by Göteborg Energi. Swedish Environmental Research Institute is starting a three-year CDM capacity building programme in China; Lulea University earlier did a project looking at CDM potential in China. Sweden's DNA rules and approval statistics are available at <http://www.energimyndigheten.se/...>

Number of the month

100 billion \$: annual Kyoto mechanisms volume if post-2012 negotiations are successful according to Yvo de Boer, Secretary-General of the UNFCCC

CDM counter (as of May 25, 2007)

- Pending large-scale baseline methodologies: 45
 - of which forestry: 6
- Approved and published baseline methodologies: 58 (including 10 consolidated ones)
 - of which forestry: 7
- Notified DNAs: 119 (96 host countries, 23 buyer countries)
- Companies applying to become operational entity: 20
- Accredited operational entities: 17
 - Of which 6 for verification
- Projects currently open for public comments on PDD: 146
- Projects that are undergoing and have undergone the public comment period: 1427
 - Of which 139 have officially applied for registration

- for 24 of which a request for review has been launched
 - Of which 11 have to make corrections
 - Of which 8 are undergoing review
 - Of which 14 have been rejected
 - Of which 4 have officially been withdrawn
 - Expected CERs until 2012 from those projects: 1178 million
 - Of which 149 million from those that officially applied for registration
 - Of which 50 million from projects with request for review and corrections requested
 - Of which 3 million from those undergoing review
 - Of which 9.4 million from rejected ones
 - Registered projects: 675
 - expecting 922 million CERs by 2012
 - Host countries: 39
 - Buyer countries: 14
 - Issued CERs: 49.9 million
 - CER price: 5-6 Euro for medium-risk forwards, 7-10 Euro for low-risk forwards, 9-13 Euro for registered projects, 13-14 Euro for issued CERs or 70% of EU allowance price at delivery
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