

CDM Highlights 50

July 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!

After 4 years and 50 issues, we as editors of CDM Highlights look back on a profoundly changed CDM world. When we started our newsletter, the CDM was an embryonic mechanism, without any approved baseline methodology or registered project. Today the CDM expects billions of CERs, moves billions of Euros around the world and is a hot topic in the circles of high finance. While in 2003, CDM consultants were seen as strange nerds with a fancy for environment, they now work for hedge funds in the City of London, where the first carbon millionaires are being made. Governments in host countries see the CDM as a key economic sector to be mentioned in the finance minister's budget speech. And TV stations show features on the CDM at prime time.

But some things have stayed the same. The Executive Board rejects a high share of submitted baseline methodologies. Project developers complain about the stringency of CDM rules. People fight about the interpretation of additionality. The least developed countries, particularly in Africa do not have the capacity and/or the investment climate to embark on CDM. Researchers and analysts debate whether the CDM contributes to sustainable development. And donor organizations like GTZ contribute to CDM capacity building.

Where may the CDM world stand in 4 years? Will the CDM continue its stellar rise and be the cornerstone of international climate policy? Or will we suffer from a hangover due to spectacular failures of CDM projects and confirmed doubts about lacking contribution to development?

Lorenz Petersen, GTZ and Axel Michaelowa, Perspectives

UNFCCC, EB and its panels

The EB met from 25-27 July for the 33rd time, taking the following decisions:

- A CDM programme (Programme of Activity, PoA) can use small-scale methodologies without any limit on the size of the PoA, but have to use PoA-specific versions of the small-scale methodologies that account for leakage. The leakage rules essentially require independent monitoring of scrapping of replaced equipment. For biomass, they use the leakage rules from the respective large-scale methodologies. In the case of fuel switch, upstream emissions are to be taken into account. This decision gives small-scale project developers an excellent tool to circumvent the rule that bundling of small-scale projects is only allowed up to the small-scale thresholds.
- The registration fee of the PoA is calculated on the basis of the estimated reductions from the CPA whose CPA-DD (CDM Project Activity) is submitted with the PoA-DD for registration. This means that a PoA coordinator can keep the registration fee extremely low by choosing a small CPA. Subsequent CPAs do not have to pay a registration fee!
- The templates for the PoA-DD and the CPA-DD were agreed and are available on the UNFCCC website.
- The recent decision to revise baseline methodologies not more frequently than every 6 months was revoked, increasing the uncertainty of project developers
- Four baseline methodologies were approved (waste gas recovery from refineries, improvement of industrial boilers, agricultural waste use for pulp and paper, forestry on degraded land). The boiler and pulp and paper methodology could be widely replicated. Two methodologies (energy efficiency in ferroalloy production, PFC reductions from aluminium) have to be revised and one methodology (fertilizer components) was rejected.

- A small-scale forestry methodology on forestry in settlements was agreed and the existing methodology for grass- and croplands revised
- Application criteria of several methodologies (ACM 3, AM 14, 33, 36, 47) were expanded. The most relevant of those changes will be the use of any fossil fuel or dedicated biomass for cement manufacture and usage of animal fat residues for biofuel generation.
- All biomass-related methodologies have been revised to eliminate CER generation for methane avoidance from biomass that is not surplus.
- Empty fruit bunches (EFB) from palm oil production are classified as (slowly decaying) wood regarding their methane avoidance characteristics. This will strongly reduce CER volumes from projects using EFB for power generation.
- A tool for calculation of N₂O emissions from fertilizers was agreed. This will be relevant for forestry but also methodologies in the agricultural sector
- Infrastructure to enforce a policy or standard is not eligible as CDM project, reconfirming that only equipment that actually reduces emissions can generate CERs
- Bureau Veritas was accredited to validate seven project types beyond the energy sector
- DOE or other units of the DOE or its parent companies are not allowed to provide calibration and/or laboratory services to project developers whom they validate. The EB can however grant exceptions to this rule.
- The EB will hold telephone conferences with DOEs to clarify interpretation of rules
- The EB will develop a Validation and Verification Manual (VVM) to supersede the voluntary VVM currently used by the DOEs
- The EB will develop a policy framework to address non-compliance of DOEs with EB rules. That shall outline consequences of non-compliance and non-conformities.
- The decision on the consolidated methodology for greenfield supercritical power plants was postponed, apparently after a controversial discussion whether coal should be supported through the CDM.
- 5 of the 10 projects under review were rejected (among which 2 biopower plants from India, the large gas flaring reduction in Equatorial Guinea, 1 fuel switch in Bolivia and a hydro power plant in Panama). The biopower plants could not show additionality, the gas flaring reduction and fuel switch projects started before 2000 and the hydro project did not use the methodology correctly. In total 24.6 million CERs are lost.
- Moreover, one project (energy efficiency in cement production, India) was rejected because it had not made the corrections requested by the EB at its last meeting. This is the first case that the corrections were deemed not to be sufficient by the EB and indicates an increased scrutiny.
- Of the 25 projects for which a request for review was launched, 15 projects were placed under review (among which 8 energy efficiency projects in Brazil, 5 biopower plants, 1 fuel switch. The review of 5 projects relates to doubts about additionality while 10 projects have problems regarding application of the baseline methodology.
- The Accreditation Panel and the Meth Panel will be increased by one member; applications are due by August 31.

The Meth Panel met on July 9-13:

- In the context of a methodology submission that addresses greenhouse gases covered by the Montreal but not by the Kyoto Protocol, the Meth Panel proposed the following options to the EB
 - Only Kyoto gases are considered as project emissions or leakage emissions.
 - Non-Kyoto greenhouse gases, as defined in UNFCCC, are considered with EB-defined Global Warming Potentials (GWP)
 - Greenhouse gas emissions from refrigerants are neglected in the project and baseline situation, as long as the total GWP of refrigerant gases (including its upstream components) used in the project scenario is lower than those used in the baseline scenario.
 - The applicability of the methodology is limited to project activities that do not use gases controlled under the Montreal Protocol.
- In its revision of the consolidated methodology draft for supercritical coal power plants, it proposed that the benchmark efficiency sample group should include relevant registered CDM projects. This interpretation differs from all other methodologies where CDM projects are excluded from benchmark calculations.

Baseline methodologies

- 8 new methodologies have been submitted. Two relate to biodiesel production, and one each to concrete blending, waste heat recovery in sponge iron production, CO₂ recovery in refineries, bus transport systems and gas venting reduction. Projects using the latter would generate huge CER volumes – the accompanying PDD estimate 4 million CERs per year.

Designated National Authorities

- Host country DNAs were notified for Djibouti, Kyrgyzstan, Mauritania and Mozambique. Buyer country DNAs were notified for Belgium and Poland.
 - The DNA host country approval hitlist stands at
 - India: 667 projects (+52). At the first meeting of the National Council on Climate Change Indian Prime Minister Manmohan Singh asked India's Planning Commission to incorporate CDM strategies in sectoral plans and proposals. Singh furthermore asked the DNA to collaborate more closely with industry associations, to develop competent bundling agencies for CDM projects and increase participation of the financial sector. A PoA on distribution of energy efficient light bulbs is to be developed. It is also rumoured that a 6 million ha afforestation programme could be launched as a CDM PoA soon.
 - China: 601 projects (+76). The new approvals include 34 hydro, 12 waste heat recovery and wind, 7 biomass power, 5 nitric acid, 4 CMM, and 1 landfill gas project and gas power plant. Total annual CER volume is estimated at 14.7 million per year of which 4 million from CMM and 2.7 million from the nitric acid plants.
 - Mexico: 173 projects (+3), including 1 landfill gas, gas flaring reduction and wastewater treatment project with 0.2 million CERs per year
 - Brazil: 157 projects (+3), including landfill gas and biomass use
 - Malaysia: 36 projects
 - Indonesia: 20 projects (+0)
 - South Africa: 18 projects (+0), with an annual CER volume of 3 million
 - Israel: 17 projects, with an annual CER volume of 2,2 million
 - The DNA investor country approval hitlist stands at
 - UK: 331 projects (+0).
 - Japan: 181 projects (+8), with an annual CER volume of 83 million (+2 million)
 - Spain: 57 projects (+6). Liability for CDM projects is becoming a hot topic in Spain where government proposes a law that requires project developers to accept liability for damages from the project and ensure that it conforms to European and international legal norms.
 - Germany: 31 projects (+2)
- Please note that large projects may be approved by more than one investor country!

Project developers

- On June 5, with 41 projects entering the validation pipeline, a new record was set. Before May 2005, this volume had never been reached in a whole month...
- Large new projects in the pipeline are
 - Two waste heat recovery from steel plant (China, 6.3 and 4.4 million CERs by 2012)
 - Gas power plant (India, 4.4 million CERs by 2012)
 - Hydro plant (China, 2.8 million CERs by 2012)
- The Indian government wants to develop a 1.1 GW hydro project in Bhutan as CDM project. A private developer, Velcan Energy, wants to develop 4 hydro projects totalling 0.3 GW in the remote north-eastern state of Arunachal Pradesh.
- The carbon investment association ECIS asks to stop CER generation of HFC-23 projects at the end of 2012 as otherwise there would be a market imbalance.
- Camco International now has a CDM/JI project portfolio of 127 million CERS/ERUs (+8 million).
- After having doubled from the start of 2007, Ecosecurities' as well as Camco's share price has recently lost 15% from their peak. AgCert's share price has lost 75% since January, but has been stable since May.
- French company Rhodia has endowed a foundation in Brazil to develop community projects with 0.15 million Euro from CER revenues generated by the Paulinia N₂O reduction project. Eventually, 0.7 million Euro of endowment are to be reached.

Incentives for CDM investment

- The EU commission decided on a first batch of revised allocation plans, reopening the CER threshold issue. Ireland was allowed to allocate 5.5 million allowances more but had to reduce CER import threshold from 21.9% to 10%. On the other hand, Latvia's CER import threshold was increased from 5% to 10% and Latvia's from 8.9% to 20%. During the month, the price for 2008 EU allowances remained stable at around 20 Euro.
- At the Midnight Sun Dialogue organized by Sweden, 20 key environment ministers defined the key negotiation strands for the post-2012 climate policy regime. These will include a track on incentives for developing countries "to take measurable and reportable, actions of different kinds, such as sustainable development policies & measures (SD PAM), intensity goals or sectoral benchmarks". Ministers "see the CDM as an essential vehicle for the deployment of new technological options and believe that present discussions on new instruments within the CDM framework, such as sectoral projects, could offer interesting possibilities". The document is available at www.sweden.gov.se/content/1/c6/08/42/80/d1db5962.pdf
- The interpretation of the World Commission of Dams criteria for hydro projects above 20 MW differs considerably between EU countries. While Italy does not approve any projects of this type and Sweden applies tough criteria, other countries apparently do not check such criteria. The Netherlands recently approved the 155 MW La Higuera project in Chile.
- The Netherlands have bought 2.5 million AAUs from Latvia. This move has been heavily contested by Dutch NGOs but may herald the end of reluctance towards "hot air" acquisition in Western Europe.
- The key EU environmental NGOs have proposed that in the EU ETS, an "overwhelming majority of emissions reductions required by the scheme are achieved within the EU". Only Gold Standard CER should be allowed into the EU ETS
- On July 18, the UK DNA organized a stakeholder workshop on critical issues of the CDM market, inter alia additionality and sustainable development aspects. The UK plans to enlist commercial banks in an initiative to boost CDM project development in Africa by sending experts to identify project options. At this workshop, EB member Lex de Jonge argued that highly profitable projects that invoke the barrier test should be scrutinized more thoroughly than in the past.
- Bill Gates' foundation is investing 25% of the total capital of a 460 million Euro carbon fund "Peony Capital", which will focus on China. Former World Bank and Climate Change Capital staff Mina Guli is part of the endeavour.
- Climate Change Capital plans to channel 600 million Euro into Chinese CDM projects
- Guyana's president Bharrat Jagdeo complained that "assistance is miniscule through the CDM as compared to the carbon credits we could get from standing forests." Guyana is organizing a seminar on bioenergy in the Caribbean in early August that is also to discuss CDM opportunities.
- The World Bank will support Pakistan in forestry CDM, CFL distribution programmes and waste methane projects
- The South Africa CDM Industry Association wants to provide electricity grid emission factors for South Africa, following the examples of India, China and Brazil. In the meantime, DNV has put into question the Indian emission factor and validated a spurious emissions factor 20% higher.
- Deutsche Bank published a price forecast for EU allowances at 35 Euro in 2010.

Web news and downloads of the month

- IGES' publication CDM in charts has been updated to cover up to the 32th EB meeting and is available at www.iges.or.jp/en/cdm/pdf/charts.pdf
- A new database of registered CDM projects is available at www.iges.or.jp/en/cdm/pdf/data/iges_cdm_db.zip. It goes beyond the URC database in listing estimated CER levels for every year, but does not give information on issued CERs.
- An overview of the World Bank history of developing ERPA's can be found at http://carbonfinance.org/docs/Banks_experience_in_contracting_emission_reductions.pdf
- Miriam Schröder: The CDM and its contribution to renewable energy deployment in China, at www.frankhaugwitz.info/doks/cdm/2007_06_China_CDM_contribution_RE_deployment.pdf

Other news

- DNV's Einar Telnes, whose tireless work made DNV the undisputed world market leader in the DOE business, is moving to a US based hedge fund, Kolibri Finance.
- Sajida Khan, ardent fighter against a CDM landfill gas recovery project in Durban, South Africa, died from cancer. Khan had argued that the CDM project would perpetuate the operation of the landfill and thus impact on the health of nearby residents.
- IETA chairman Andrei Marcu is moving to the World Business Council for Sustainable Development.

Country of the month: China

China has become the world's hottest CDM destinations – and this just three years after it reluctantly embraced the CDM by setting up its DNA. Every month, more than 50 projects are approved and China now accounts for over 50% of the world's CER supply. This is surprising given the DNA started with a top-down approach, requiring a majority ownership of Chinese companies, setting a CER tax on attractive project types, prohibiting consultants to charge a success fee and requiring an ERPA with a price above a certain level, the so-called "floor price" before host country approval could be given. In 2004 and 2005, substantial amounts of capacity building funds flowed into the country, culminating in publication of the National Strategy Study. Since 2006, every serious international CDM project developer has set up an office in China and domestic CDM consultancies with flowering names are mushrooming. The DNA's website <http://cdm.ccchina.gov.cn/english/main.asp?ColumnId=26> provides up-to-date information on all aspects of CDM in China. It also contains the standardized baseline emission factors unveiled in December 2006. The China CDM Fund that administers the CER tax revenues has started operations; it shall finance CDM and climate-change-related capacity building, mitigation and adaptation. The Chinese State Forestry Administration set up a China Green Carbon Foundation to mobilize forestry CDM, based on the success of the first registered forestry project. Despite the frenzy of project development, donors are still queuing up to pour more capacity building funds into China. The largest project is the 2.8 million Euro EU-China CDM Facilitation Project to train Chinese firms to navigate the approval process; it will run until 2010. Denmark and Japan are also providing important funds.

CDM potential in China is increasing day by day – annually 60 GW of low-efficiency coal power plants are built and energy intensity is deteriorating since 2000. CO₂ emissions are increasing at breakneck speed – more than 500 million t per year since 2002. China is expected to reach the US emissions level in 2007. On this background, the successes in wind that is expected to reach 4 GW by end 2007 and hydro expansion are only a drop in the desert. Let us hope that CDM may contribute to a shift in China's emissions path ...

Number of the month

1 billion: expected CERs by end 2012 from registered projects. The threshold was broken in mid-July.

CDM counter (as of July 29, 2007)

- Pending large-scale baseline methodologies: 39
 - of which forestry: 5
- Approved and published large-scale baseline methodologies: 66 (including 11 consolidated ones)
 - of which forestry: 8
- Approved and published small-scale baseline methodologies: 23
- Notified DNAs: 125 (100 host countries, 25 buyer countries)
- Companies applying to become operational entity: 20
- Accredited operational entities: 18
 - Of which 7 for verification

- Projects currently open for public comments on PDD: 186
 - Projects that are undergoing and have undergone the public comment period: 1692
 - Of which 43 have officially applied for registration
 - for 21 of which a request for review has been launched
 - Of which 26 have to make corrections
 - Of which 15 are undergoing review
 - Of which 26 have been rejected
 - Of which 4 have officially been withdrawn
 - Expected CERs until 2012 from those projects: 1292 million
 - Of which 55.3 million from those that officially applied for registration
 - Of which 22.1 million from projects with request for review and corrections requested
 - Of which 3.5 million from those undergoing review
 - Of which 37 million from rejected ones
 - Registered projects: 751
 - expecting 1017 million CERs by 2012
 - Host countries: 43
 - Buyer countries: 14
 - Issued CERs: 63.5 million
 - CER price: 5-6 Euro for medium-risk forwards, 7-10 Euro for low-risk forwards, 9-13 Euro for registered projects, 15-16 Euro for issued CERs or 72-76% of EU 2008 allowance price
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