

CDM Highlights 51

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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!

Among signs that the CDM project pipeline is starting to slow down, UNFCCC negotiations in Vienna ended on an upbeat note, among reports that industry prefers a relatively strong regime to continued uncertainty. Encouraging news regarding the ITL has reduced the price gap between CERs and ERUs. Exchanges from all over the world start to get engaged in CER trading or auctioning.

Anja Wucke, GTZ and Axel Michaelowa, Perspectives

UNFCCC, EB and its panels

- The background report to the Vienna climate negotiations on Aug. 27-31 notes that CDM projects in the pipeline in 2006 will generate investment of about 25 billion \$, of which approximately 50% represents capital invested in unilateral projects by host country project proponents. Renewable energy and energy efficiency projects account for 90% of the overall investment. It cautions that the supply of Kyoto units will be abundant compared with to the level of compliance demand for the period 2008–2012. The voluntary market could represent about 15% of the total carbon market. In a high-compliance scenario for 2030 demand could generate investment of 100 billion \$ per year.
- The EB is hiring 20 new staff within the next months
- Eight submissions on additionality were made by EcoSecurities, IETA, World Bank, WWF and four consultants, they are available at http://cdm.unfccc.int/public_inputs/dev_PDDs/index.html
- For the first time, private sector representatives are invited to participate in the UNFCCC's DNA Forum which will be held from 4 to 6 October 2007 in Addis Ababa

Baseline methodologies

- It is becoming more and more fashionable for project developers to submit proposals for small-scale methodologies due to the difficulty to get large methodologies accepted. Currently, new small-scale methodology proposals are pending for 8 categories (plant oil use for transport, inoculant application in agriculture, waste heat recovery, animal waste, concrete production, HFC replacement in refrigeration). Three of these methodologies have already gone through three revision loops, four through one revision. There is no maximum number of revision loops, so the system is more and more strained. Moreover, several critical issues such as the inclusion of technical transmission and distribution losses in electricity savings methodologies are pending with the SSC Working Group.

Designated National Authorities

- After the dissolution of Serbia and Montenegro, its DNA was denotified
- Yemen's DNA has set up a website at www.cdm-yemen.org detailing the approval procedure and listing potential projects.
- Namibia will shortly notify its DNA after the Ministry of Environment and Tourism was assigned by Cabinet to be the DNA. Namibia plans to focus its CDM activity on biopower plants fuelled by Jatropha oil.
- The Thai DNA approved its second batch of 8 projects, bringing total approval to 15.
- The DNA host country approval hitlist stands at
 - India: 717 projects (+50).

- China: 684 projects (+83). The new approvals include 57 hydro, 10 waste heat recovery, 6 wind, 4 nitric acid and CMM, and 1 solar thermal and biomass power plant. Total annual CER volume is estimated at 9.1 million per year of which 0.7 million from CMM and 0.9 million from the nitric acid plants. Some hydro plants reach more than 0.6 million CERs each.
- China published revised baseline electricity grid emissions factors, which show substantial changes to the last version (-64 g CO₂/kWh for build margin in Northwestern grid, +134 g for build margin in Southern grid). The operating margin for the main grids has increased by 3-5 g CO₂, showing a decrease in efficiency of Chinese coal power plants!
- Mexico: 178 projects (+5), including 3 wind and 1 cement blending and energy efficiency project each with 0.7 million CERs per year
- Brazil: 162 projects (+5), including landfill gas and hydropower
- Malaysia: 36 projects (+0)
- Philippines: 27 projects (+10), including 7 animal waste methane reduction projects and 1 landfill gas, hydro and rice husk power plant. Total annual CER volume reaches 1 million (+0.5 million)
- Indonesia: 24 projects (+4), including 1 landfill gas, biomass power, hydropower and gas cogeneration plant each.
- South Africa: 18 projects (+0)
- Israel: 12 projects (+0). The number has been corrected as some of the projects reported as having approval only have a letter of endorsement.
- The DNA investor country approval hitlist stands at
 - UK: 331 projects (+0).
 - Japan: 200 projects (+19), with an annual CER volume of 88.6 million (+5.6 million)
 - Sweden: 75 projects (+15), with an annual CER volume of 23 million (+0.8 million)
 - Spain: 57 projects (+0).
 - Germany: 31 projects (+0)
 Please note that large projects may be approved by more than one investor country!

Project developers

- August saw a significant decrease of project submissions to the UNFCCC – it fell to the lowest level since January 2007
- Large new projects in the pipeline are
 - Coal mine methane recovery (China, 4.2 million CERs by 2012), which however is a revised version of a project submitted in August 2006, interestingly with a downwards estimate of the annual CER volume by 0.156 million
 - Landfill gas (Philippines, 3 million CERs by 2012)
 - Afforestation (Tanzania, 1.7 million tCERs by 2012)
- The first large greenfield gas-fired power plant (1150 MW, India, 3.2 million CERs per year) was registered which may pave the way for a large new CER stream.
- The city of Sao Paulo auctions 0.8 million CERs from its CDM landfill project through the Brazilian Mercantile & Futures Exchange on Sep. 26. Bidding starts at 60% of the 2008 EU allowance price.
- The Mumbai Railway Vikas Company plans to submit introduction of more energy-efficient trains as a CDM project.
- Trading Emission's CER portfolio has increased its firmly contracted CER portfolio by 14 million but no new projects entered its portfolio.
- South African's Kuyasa energy efficient housing project, which had been stalled for a long time due to lack of financing, has retrofitted 10 pilot houses and started work on the other 2300 houses. The financing gap was closed through a Department of Environmental Affairs and Tourism poverty alleviation grant. CER revenue covers 30% of the project cost.

Incentives for CDM investment

- According to the UNFCCC Secretariat, the International Transaction Log (ITL) is planning to start operations in November 2007. The EU plans to link its registries to the ITL on Nov. 17-18. CER discounts have fallen accordingly to around 20%.
- The EU Commission accepted the Danish allocation plan but reduced the CER import cap from 19% to 17%.

- The prices of different vintages of EU allowances in the 2008-2012 period have started to diverge. On Aug. 31, the price for a 2008 EU allowances was 19.4 Euro whereas the 2012 allowance reached 21.7 Euro. The strong spread is surprising as allowances can be banked.
- The Japanese Ministry for Environment has launched a tender for six CDM projects with 10 million Euro.
- The total portfolio of the World Bank's Biocarbon Fund has now reached 15 projects with signed ERPA's with a volume of 4.5 million tCERs. 5 of these projects are located in Sub-Saharan Africa.
- Doha Bank, Qatar, wants to set up a CER exchange in 2009 in collaboration with RainTrust Foundation (US) and has secured expressions of interest from Citigroup and Credit Suisse Group.
- The Chicago Climate Exchange has started trading in CER contracts which shows that it expects CER demand to come from the US..
- State Bank of India has teamed up with consultancies MITCON Consultancy Services, EcoSecurities and Cantor CO2E to provide financing for CDM projects.
- Indian ICICI bank has agreed with Japan Bank of International Cooperation to channel a 200 million \$ loan to Indian companies willing to develop CDM projects whose CERs would then be sold to Japanese companies.
- South Korea is introducing a voluntary trading scheme for industry. However, the incentive budget of 50 million Euro for a four-year period will not be sufficient to generate a relevant participation.
- The Malaysian government aims for 500 MW of palm oil biomass waste electricity capacity by 2010. State electricity monopoly Tenaga has increased the feed in-tariff by 10% to 0.044 Euro/kWh. This might increase the interest in CDM projects in this sector.
- A Sino-Dutch CDM Capacity Building Project funded by Dutch ING Bank has been launched with the primary aim to establish provincial CDM technical services centers in Chongqing, Heilongjiang, Jiangxi, Fujian and Guangdong provinces.
- German utility RWE plans to buy 90 million CERs and ERUs until 2012 and already has contracted 23 million. Thus it is by far the largest German actor on the market. Emulating RWE, German utility EON is setting up a CDM/JI team.
- The UK discount airline Easyjet is offering CERs from a hydro project for its passengers wishing to offset their air travel emissions.

Web news and downloads of the month

- Environmental Defense: CDM and the post-2012 framework, recommending a discount for CERs from rapidly industrializing countries and a CDM "sunset" clause, download at www.environmentaldefense.org/documents/6838_ED_Vienna_CDM%20Paper_8_22_07.pdf
- Rie Watanabe, Renate Duckat, and Wolfgang Sterk: Carbon Capture and Storage under the Clean Development Mechanism, download at www.jiko-bmu.de/files/basisinformationen/publikationen/application/pdf/policy_paper_ccs_and_cdm.pdf
- The technical panel on the ozone regime (UNEP-TEAP) has published a report including a chapter on integration of HFC-23 destruction from new HCFC-22 production capacity in the CDM; download at http://ozone.unep.org/Assessment_Panels/TEAP/Reports/TEAP_Reports/TEAP-TaskForce-HCFC-Aug2007.pdf
- A number of interesting analyses on CDM (CER purchase programmes, CDM in Africa, contribution of CDM to sustainable development) as well as reports on CDM EB meetings are available in German language at www.jiko-bmu.de/basisinformationen/publikationen/doc/74.php
- CD4CDM's publication "Exchange: Determining a Fair Price for Carbon" can be ordered free of charge at http://risoe-forms.risoe.dk/unep/form_registration.asp

Other news

- The Government of India, World Bank, IETA and FICCI hold the India Carbon Market Conclave on Nov. 1-2 in Delhi; further information is available at www.ficci.com/icmc07/coclave.htm
- CAN Europe holds a workshop "CDM 2.0: Conference on Post-2012 mechanisms" on October 15 in Brussels. Registration can be done at events@climnet.org
- The German Ministry of Environment holds a CDM/JI investor's forum focusing on Eastern Europe and CIS on Oct- 14-16 in Leipzig. Register at www.jiko-bmu.de/files/basisinformationen/nachrichten_termine/application/pdf/anmeldung_investors_forum.pdf

Country of the month: Kenya

For a long time, Kenya has been seen as a promising CDM destination and attracted substantial capacity building efforts from a very early date (UNIDO, 2000-2001 leading to publication of a study on industrial projects, CDM-SUSAC, 2000-2002, UK Foreign Office 2000-2006, Canadian Pembina Institute with its Small-Scale Project Facility 2001-2005). Already in the mid-1990s, the African Centre for Technology Studies (ACTS) had done theoretical work on project-based mechanisms. UK consultancy CAMCO has been preparing several CDM projects in the sugar and tea sector since 2000. Pembina identified five small community-based CDM projects (bagasse cogeneration, treadle pump, solar PV lighting systems, biofuel production). However, Kenya only notified its DNA in June 2006 (sustainable development criteria of the DNA can be downloaded at <http://www.nema.go.ke/downloads/Sustainable%20Development%20Criteria.pdf>) and needed COP 12 in Nairobi in December 2006 to give its CDM business a boost, which has finally led to Kenya becoming the most active sub-saharan country in the CDM. Three projects are in the validation pipeline (geothermal, bagasse cogeneration and hydro power plants) with a total CER volume of 2.7 million by 2012. The World Bank CDCF has bought 0.9 million CERs from Olkaria II Geothermal Expansion and the Biocarbon Fund 0.375 million tCERs from afforestation of the Green Belt movement, which has not yet been submitted for validation. The flagship geothermal project is financed through a loan of 40.8 million \$ from the European Investment Bank, 22 million \$ IDA grant and 24.7 million \$ from AfD. CER contribution to overall investment is estimated at 13 million \$. Despite the increasing activity, no specialized CDM consultancy has been set up so far in Kenya.

Number of the month

371 million CERs: volume of primary CER transactions in the first half of 2007 according to Point Carbon.

CDM counter (as of August 27, 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: 95
- Projects that are undergoing and have undergone the public comment period: 1667
 - Of which 72 have officially applied for registration
 - for 52 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 5 have officially been withdrawn
- Expected CERs until 2012 from those projects: 1223 million
 - Of which 62.5 million from those that officially applied for registration
 - Of which 29.1 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
 - Of which 1.9 million from withdrawn ones

- Registered projects: 763
 - expecting 1039 million CERs by 2012
 - Host countries: 48
 - Buyer countries: 14
 - Issued CERs: 76 million
 - CER price: 4-6 Euro for medium-risk forwards, 7-10 Euro for low-risk forwards, 10-13 Euro for registered projects, 16-16.5 Euro for issued CERs or 78-80% of EU 2008 allowance price
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