

CDM Highlights 52

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Editorial

Dear reader!

With the UN heads of state summit increasing pressure on the road to Bali, expectations for a Bali Mandate are rising. China has overtaken India in terms of number of DNA-approved projects. Confidence in the CDM remains high, bolstered by rising EU allowance prices.

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UNFCCC, EB and its panels

- In September, there was a flurry of climate policy summits, ranging from APEC over UN headquarters (where 80 heads of state participated) to a Washington summit of large emitters. None brought a breakthrough, but the overall feeling was that the forces that do not want a serious post-2012 climate policy regime are retreating.
- The COP of the international ozone regime in Montreal decided to phase out HCFCs in developing countries in 2030, 10 years earlier than agreed previously. HCFC production will be stabilized by 2013 at average production levels in 2009 and 2010, reduced by 10% until 2015 and 35% by 2020. As HCFC-22 production generates HFC-23, this means that only a part of HFC-23 reduction projects under the CDM will fully utilize their 21 year crediting period. As the agreement also means that there will not be unlimited expansion of HCFC-22 production, it might pave the way for an agreement at the Bali COP to include new HCFC-22 capacity in the CDM.
- The CDM EB' 34th meeting on Sep. 12-14 took the following decisions
 - Approval of the supercritical coal methodology as ACM 13 after a lengthy debate and a vote of 8:2. The methodology is applicable to greenfield fossil fuel plants (i.e. also gas) in countries where more than 50% of electricity is generated using this fuel. Regarding coal, this limits the methodology to China and India, for gas, it could be applied in the Middle East. The benchmark group is defined by the 15% most efficient power plants including CDM projects, which means that it cannot be applied any more if more than 15% of power plants using the same fuel in the country have become CDM projects. The EB explicitly stated that these features (which are inconsistent with the Marrakech Accords and other approved methodologies) were introduced to ensure that "renewable resources projects are neither impacted nor jeopardised".
 - The procedure for small-scale methodology submissions was substantially tightened and aligned with the large-scale submission procedure (desk reviews, submission forms). Thus the increasingly used possibility for experimentation with difficult methodologies no longer exists from Nov. 1 onwards.
 - 10 out of 14 projects under review were rejected, 8 of which were small energy efficiency improvements in Brazilian supermarkets with problems of monitoring. For a biomass power project from palm oil production wastes in Malaysia, the EB did not accept the benchmark used in the investment test, stating that it used a benchmark for the palm oil industry instead of the electricity generation industry.
 - A record number of 30 projects were placed under review for registration (out of 46 with a request for review). 12 projects have an issue regarding additionality, and 18 a methodology-specific problem.
 - 7 projects were placed under review of issuance (out of 19 requests for review). Reasons are inconsistencies of monitoring plan and underlying methodology, diverging meter readings, unclear meter calibration and verification of measurements.
 - Greenhouse gases that are not covered by the Kyoto Protocol but the Montreal Protocol have to be taken into account in leakage calculations using Global Warming Potentials of the IPCC Third Assessment Report.

- All projects that have already published their PDD for public comments have to republish it if the applicable methodology is revised.
- One DOE is undergoing a spot check. Another DOE appealed against an EB decision but the appeal was rejected. The name of the latter DOE was not published.
- The Meth Panel was expanded by one member (Ciska Terblanche); in an unusual move, a “reserve” member has also been appointed in case a current member resigns.

Baseline methodologies

- 12 new methodologies have been submitted in the 20th round. They include several widely replicable activities (two methods for gas pipeline retrofit, industrial cogeneration, manufacture of energy efficient fridges, occupancy increase in public transport, international electricity grid interconnection) as well as very specific ones (SF6 reduction in TV screen manufacturing, chemicals production from coke-oven gas, methane capture from metal mines). Some project types could generate substantial reductions if the methodologies were approved (1.5 million CERs annually for the PDD accompanying the SF6 methodology, 0.5 million for the interconnection and gas pipeline retrofits).

Designated Operational Entities

- Germanischer Lloyd Certification GmbH, Germany, has applied for DOE status

Designated National Authorities

- Myanmar and Namibia have notified their DNAs.
 - The DNA host country approval hitlist stands at
 - China: 737 projects (+52). The new approvals include 27 hydro, 16 waste heat recovery, 4 wind, 2 nitric acid and 1 gas and biomass power plant. Total annual CER volume is estimated at 8.5 million per year of which 2.2 million from the gas power plant and 0.8 million from the nitric acid plants.
 - India: 717 projects (+0).
 - Mexico: 178 projects (+0)
 - Brazil: 162 projects (+0)
 - Malaysia: 36 projects (+0). The Malaysian government exempts CER revenues achieved in 2008-2010 from income tax.
 - Philippines: 27 projects (+0). Currently, 23 further projects are in the approval pipeline with an estimated annual CER volume of 0.9 million
 - Indonesia: 24 projects (+0)
 - South Africa: 18 projects (+0)
 - Israel: 12 projects (+0).
 - The DNA investor country approval hitlist stands at
 - UK: 331 projects (+0).
 - Japan: 210 projects (+10), with an annual CER volume of 95.5 million (+6.9 million)
 - Sweden: 84 projects (+9), with an annual CER volume of 24.3 million (+1.3 million)
 - Spain: 57 projects (+0).
 - Germany: 39 projects (+8)
- Please note that large projects may be approved by more than one investor country!

Project developers

- In September, the inflow into the project pipeline picked up again to reach near-record levels.
- Large new projects in the pipeline are
 - Three gas power plants (China, 9.7, 3.7 and 3.4 million CERs by 2012)
 - HFC-23 reduction (India, 2.2 million CERs by 2012)
- At the end of August, 20 of the 98 accounts in the CDM registry belonged to entities from developing countries. However, these held only 1% of the CERs issued so far. This shows that pure unilateral projects are rare.
- Ecosecurities reports losses of 13 million Euro in the first half of 2007. Its total CER portfolio increased by 22 million to 178 million. Total ERPA volume stood at 34 million CERs at an average price of 12.1 Euro and a CER generation cost of 6.7 Euro. Trades done in 2007 had an average price of 15 Euro. Staff numbers stand at 260. Shares currently trade at twice the issuance price. Ecosecurities is interested to acquire small CDM project developers, whose number is estimated at

200 globally. They teamed up with the Confederation of Indian Industry to develop projects in Indian small and medium enterprises. On a more glamorous note, they sponsored a concert to celebrate the 15th anniversary of the UNCED summit in Rio de Janeiro.

- Camco reports losses of 5 million Euro in the first half of 2007. Its total CER portfolio increased by 24 million to 127 million and total ERPA volume by 10 to 46 million. Staff numbers stand at 200.
- Latin-American based renewable energy Econergy feels increasing pressure regarding repayment of a loan they took from Trading Emissions in 2005 and which has to be repaid in CERs in 2007-2013. As the implicit CER price is just 2.6 Euro and Econergy does not have enough CERs from its own projects to cover the liability, the loan costs are mounting, contributing significantly to a first half 2007 loss of 2.6 million Euro.
- Animal waste methane reduction company AgCert reported losses of 28.5 million Euro in the first half of 2007. 6.8 million Euro of these losses have been accounted by writing off 19% of all sites where projects were to be implemented. AgCert slashed its staff from 318 to 192 and tries to negotiate a deal with a trader to cover sales contracts of 4.2 million CERs that are difficult to fulfill due to the continuing shortfall in CER issuances. It is now also diversifying into other project types and even CER acquisition (!). Whether these hectic attempts to save the company succeed remains to be seen. Its shares have fallen to an all-time low of just 12% of the issuance price.
- The issue of Brazilian electricity grid emission factors (see July issue) does not come to rest. The CDM consultants Agcert, MGM International, Econergy, Ecoinvest and Ecoadvance wrote a letter to the Brazilian DNA, stating that the emissions factor was published without discussion with the various parties involved in CDM projects. The key bone of contention is the grid definition. Whereas the emission factor used by the developers until now relates to two grids, the DNA-published factor specifies four grids. This decreases the carbon intensity of the Southern grid where most CDM projects are located.
- The South African Central Energy Fund has established a subsidiary "CEF Carbon" to develop CDM projects, in which it takes an equity stake, and broker the resulting CERs. It will be headed by an ex- Shell and BP carbon manager.
- Swiss CDM consultancy Factor and German 3C merge to form Factor3C AG.
- Indian "Reliance Industries" plans to submit several large gas power plants with a total capacity of 6 GW as CDM projects in India.
- ITC, India's largest paper producer, aims to submit 74,000 ha of forest plantations as seven different CDM forestry projects. According to ITC manager Srinivasan, the revenues from CDM credits are to go into a common trust of the farmers to invest in more plantations.
- Dubai Aluminium Company is reported to prepare a CDM project by retrofitting its aluminium smelter in Jebel Ali.
- The state of Abu Dhabi has set up a CDM project developer under the name Abu Dhabi Future Energy Company.
- Malaysian building contractor Putrajaya Perdana is planning to submit energy efficient buildings in its portfolio as CDM projects
- CDM newcomer Joint US-China Cooperation on Clean Energy is planning to give away 10 million Compact Fluorescent Lamps for free in a CDM programme to start in April 2008. The group seems opaque and financing is unclear.
- Sindicatum Carbon Capital invests 50 million \$ to set up a coal mine methane project in China. This is a rare move, going beyond a classical ERPA.
- London Climate Change Services has relaunched itself as the Carbon Markets Association, with the aim to "ensure progressive business voice is heard - climate policy and regulation is good for business."

Incentives for CDM investment

- Hungary, New Zealand and Japan will be eligible to use the Kyoto Mechanisms from 1 January 2008, Switzerland from 10 March 2008 and Austria from 5 April 2008, according to the Kyoto Protocol Compliance Committee.
- Bolstered by record oil prices, EU allowance prices climbed to 22 Euros for 2008 delivery, leading to an upward trend of CER prices.
- The EU announced that it is unlikely that the CITL will be linked to the ITL by Dec. 1, citing "technical problems in connecting the test environments of the CITL to the ITL, and the need to conclude interoperability testing of the two systems".
- A large push for JI projects is visible, particularly regarding coal mine methane in Ukraine. However, uncertainty regarding Russian JI approval practices remains.

- Norway has started a tender for CER/ERU acquisition with a volume of 25 million Euro and a closure date of Nov. 9. The minimum size of transactions is 50,000 CERs, the maximum lies at 1 million. A focus shall be on projects in Africa. For details, see www.carbonneutralnorway.no
- Sweden has increased the budget for CER/ERU acquisitions by 10 million Euro.
- The Swiss government has approved the final business plan of the Climate Cent Foundation. Moreover, the Swiss minister of economic affairs announced that Switzerland would work towards the aim of being “climate neutral” which would mean that it would cover all emissions through emissions credits. This concept is however not supported by the Ministry of Environment which prefers a global carbon tax.
- The World Bank is preparing a “Carbon Asset Development Fund” for CDM programmes. With now 12 funds under its management, the Bank is moving further away from its declared aim to leave the carbon market to the private sector once it had overcome its teething troubles.
- The Japan Bank for International Cooperation provides PDD development support to Peruvian companies willing to sell the resulting CERs to Japanese companies.
- The members of the Federation of Electric Power Companies of Japan have acquired 50 million CERs and ERUs in 2006.
- German utility RWE has already contracted 20 million CERs from China and is trying to conclude ERPA with five coal mine methane projects.
- At the Latin American Carbon Fair in Lima, several CER buyers complained about high CER price offers from Latin America, compared with the Chinese approach. The same complaint has been repeatedly made about Indian CER offer prices.
- The CER auction by the City of Sao Paulo attracted 14 bidders among which several large international banks but also project developer EcoSecurities. Finally, Fortis bank won by paying 16.2 € per CER for 0.8 million CERs.
- The Chicago Climate Exchange (CCX) auctioned 0.16 million CERs issued for an Indian wind projects at 22.11 \$, i.e. 15.7 Euro, about 1 Euro below prices on the EU CER spot market.
- CCX postponed the start of its CER contract, citing “finalisation of clearing arrangements” as the reason.
- Peony Capital, a fund supported by the Gates Foundation, has announced an ERPA of 100 million Euro for CERs from two gas power plants in China.

Web news and downloads of the month

- The long-awaited CDM Bazaar is online at www.cdmbazaar.net. Administered by UNEP Risoe Centre (URC), it aims to facilitate exchange of information among CER buyers, sellers and CDM service providers. By the end of September, 59 buyers from 24 countries, 72 sellers from 30 countries and 191 service providers from 39 countries had listings on CDM Bazaar. India leads the list of service providers with 35 entries, followed by China with 28, UK with 20, US with 17 and Brazil with 10. Only 13 projects have been posted by sellers so far. A listing of publications, job opportunities and conferences can also be found.
- The provisional rule search function on the UNFCCC website at [ftp://test.cdemis.net/catalogue-test](http://test.cdemis.net/catalogue-test) has now been expanded by a “tagged” search function that looks for context.
- A concise overview of the current status of CDM projects in Brazil can be downloaded at http://www.mct.gov.br/upd_blob/0018/18150.pdf
- URC has published an in-depth study on potentials and barriers for end-use energy efficiency under programmatic CDM. Download at <http://www.cd4cdm.org/Publications/pCDM&EE.pdf>
- The URC study “Determining a fair price of carbon” is available at <http://www.cd4cdm.org/Publications/Perspectives/FairPriceCarbon.pdf>. It contains 11 articles on CDM market dynamics and pricing issues from buyers, sellers and regulators.
- Presentations of the Latin American Carbon Forum can be downloaded from <http://latincarbon.com/2007/english/presentations.htm>. The sessions on reasons for bad performance of landfill gas projects and experience of validators are particularly rewarding.
- An estimate of the demand for and supply of CERs can be found at <http://www.climatestrategies.org/uploads/cer-generation-cs9-07.pdf>
- IGES’ useful CDM in charts has been updated and is available at <http://www.iges.or.jp/en/cdm/pdf/charts.pdf>
- IETA has defined the principles it wants to promote, inter alia “adequate offset availability” and support of CCS. Download at <http://www.ieta.org/ieta/www/pages/getfile.php?docID=2508>
- For those interested in economic modelling of CDM abatement cost curves, see Anger, Niels, Christoph Böhringer und Ulf Moslener (2007), Macroeconomic Impacts of the Clean Development Mechanism: The Role of Investment Barriers and Regulations, ZEW Discussion Paper No. 07-026, Mannheim at [ftp://ftp.zew.de/pub/zew-docs/dp/dp07026.pdf](http://ftp.zew.de/pub/zew-docs/dp/dp07026.pdf)

- The Indian Central Electricity Authority (CEA) has updated the Indian electricity grid factors on the basis of improved data for heat rates for open- versus combined-cycle power plants and exact commissioning dates.

GTZ CDM capacity development

- GTZ is going to present its lessons learnt in CDM Capacity Building in five countries at the 3rd day of the DNA Forum in Addis Abbeba, Ethiopia, see work programme https://cdm.unfccc.int/DNA/DNAForum/03/3rd_DNA_Addis_agenda__v7.pdf
- A study on opportunities for CDM for energy efficient buildings is under preparation in cooperation with the Ministry of Construction in China. The results are expected to be presented in a workshop to be held in November.
- GTZ contracted UNEP Risoe Centre to prepare a scoping mission in 5 francophone African countries in order to design workshops for Capacity Development on CDM in the energy sector. The mission is supposed to start in October.

Other news

- Chilean investment agency CORFO hosts an International Carbon Trade and Investment Meeting in Santiago on Nov. 14-16. Around 80 bioenergy, hydro, wind and geothermal energy projects in need of investment and equipment and 20 CDM projects selected by CORFO are looking for buyers.

Country of the month: Liechtenstein

Liechtenstein, which is located between Switzerland and Austria, is one of the smallest (160 km²), but also richest countries in the world with a population of 35,000 and a per capita GDP (purchasing power parity) of 32,000 Euro. So far, climate policy did not play a relevant role. This has changed since early 2007. The country notified its DNA in March 2007. Surprisingly, despite a customs and monetary union with Switzerland, it will accede to the EU emissions trading scheme with plants emitting 20,000 t CO₂. A national climate policy strategy was published in September 2007. The annual difference between current emissions and the Kyoto target reaches 60,000 t CO₂ eq., of which 40,000 t are to be covered by use of the Kyoto Mechanisms, i.e. 0.2 million t over the whole commitment period. Acquisition of "hot air" will not be done, unless a Green Investment Scheme has been defined. CDM and JI projects have to show ecological benefits and "social-ethical" acceptability for the population of the host country. HFC-23 and carbon capture and storage projects will not be approved. Liechtenstein wants to position itself as a service hub for the Kyoto Mechanisms.

Number of the month

800: registered projects at the end of September.

CDM counter (as of September 28, 2007)

- Pending large-scale baseline methodologies: 50
 - Of which forestry: 5
- Approved and published large-scale baseline methodologies: 67 (including 12 consolidated ones)
 - Of which forestry: 8
- Approved and published small-scale baseline methodologies: 23
- Notified DNAs: 126 (101 host countries, 25 buyer countries)
- Companies applying to become operational entity: 21
- Accredited operational entities: 18
 - Of which 7 for verification
- Projects currently open for public comments on PDD: 169

- Projects that are undergoing and have undergone the public comment period: 1782
 - Of which 54 have officially applied for registration
 - for 38 of which a request for review has been launched
 - Of which 29 have to make corrections
 - Of which 30 are undergoing review
 - Of which 36 have been rejected
 - Of which 5 have officially been withdrawn
 - Expected CERs until 2012 from those projects: 1219 million
 - Of which 92.7 million from those that officially applied for registration
 - Of which 29.8 million from projects with request for review and corrections requested
 - Of which 9.5 million from those undergoing review
 - Of which 34.8 million from rejected ones
 - Of which 1.9 million from withdrawn ones
 - Registered projects: 800
 - expecting 1070 million CERs by 2012
 - Host countries: 49
 - Buyer countries: 14
 - Issued CERs: 82.9 million
 - CER price: 5-6 Euro for medium-risk forwards, 8-11 Euro for low-risk forwards, 10-14 Euro for registered projects, 16-17 Euro for issued CERs, 16.8 € spot price on Nord Pool exchange
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