

CDM Highlights 54

November 2007, COP edition

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 final climate policy highlight of the remarkable year 2007 is bringing together about 10,000 negotiators and observers in the congenial setting of tropical Bali. The ratification of the Kyoto Protocol by the new Australian government is giving a perfect setting to the Bali conference. The CDM market benefits from the introduction of the International Transaction Log but reels due to the crashes in share prices of CDM project developers. The effect of the ITL introduction is muted due to the reluctance of the EU to connect its EU-wide registry with the ITL.

Anja Wucke, GTZ and Axel Michaelowa, Perspectives

UNFCCC, EB and its panels

- At the COP in Bali carbon capture and storage (CCS), new production capacities for HCFC-22 and an increase of the small-scale threshold for forestry are the key issues regarding the CDM. Regarding CCS, Canada proposes host country liability, whereas the EU wants to leave it open whether the investor or the host country is liable. The EU proposes that a host country regulation on CCS has to be in place. Regarding HCFC-22, China proposes that all plants that have a production history of 3 years should qualify, while the EU “continues to have concerns”. Generally, it is expected that CDM issues will take a back seat compared to the post-2012 negotiation stream. To improve the spirit of the negotiations “the Climate Change Secretariat would like to propose that the dress code for participants at the upcoming Conference be adapted to take into account the warm and humid conditions in Bali. Secretariat staff [is] exempted from wearing jackets and ties. The secretariat and president designate invite participants to follow suit. The secretariat hopes that amending the dress code will allow participants to conduct discussions in a more comfortable environment, as well as limit the use of air conditioning and thereby reduce greenhouse gas emissions.”
- The International Transaction Log (ITL) became operational on November 14. On the same day, Japan connected to the ITL and transferred CERs into its national registry.
- The CDM EB’s 36th meeting on Nov. 26-30 took the following decisions
 - One DOE was de facto suspended because the EB instructed it not to submit any validation reports or requests for registration until “corrective actions are fully implemented”
 - Another DOE under spot check is “kept under observation” for another three projects.
 - The DOE Forum request for phased verification was rejected
 - The DOEs will get scorecards with the UNFCCC Secretariat’s evaluation of errors in their validation and verification reports.
 - Five new methodologies were approved. Two relate to energy efficiency improvement of thermal power plants (AM 61 and AM 62, which is limited to turbine retrofits); this might lead to substantial inflows of projects. AM 60 addresses energy-efficient air conditioners and could become important in the context of CDM programmes. AM 63 addresses CO₂ recovery in chemical industry as feedstock for pure CO₂ and AM 64 relates to mine methane capture from non-coal mines.
 - The gas flaring methodology AM 9 is expanded to activities that reduce venting of gas, but the baseline emissions level is defined by the emissions that would occur if the vented gas had been flared, which leads to a substantial decrease of VERs.
 - Three methodologies proposed for approval by the Meth Panel were not approved by the EB. The biofuel methodology has again been sent back to the Meth Panel. A waste heat recovery methodology and a methodology for replacement of SF₆ in magnesium production were sent back to the Meth Panel and the UNFCCC Secretariat, respectively.

- Out of 48 projects with a request of review, 2 were registered immediately. 36 have to make corrections. Out of those, 6 Indian renewables projects have to explain why the benchmark used in the additionality assessment is higher than the IRR of the project including CERs. This is a potentially explosive issue that could lead to a substantial reduction of benchmarks. 2 large Chinese gas power plants will be registered if they make minor corrections; the additionality issue was not raised.
- 3 out of 8 projects under review for registration were rejected (two hydro plants from Sri Lanka and one biomass power from India), all due to lack of additionality.
- 3 out of 8 projects submitted with corrections were rejected, two biomass power projects from India due to the lack of additionality and one fuel switch project due to wrong application of AM 0036
- All issuance requests under review were granted. An Indian wind project withdrew its request of issuance for 47,000 CERs. 1 project was placed under review.
- 10 projects were placed under review for registration, of which 9 have an issue regarding additionality, and 1 a methodology-specific problem.
- The EB has got 12 threats of legal proceedings from project developers in the last year. On 2 cases, the EB conceded. The UNFCCC has hired a legal expert to work on such issues

Designated Operational Entities

- China Quality Certification Center, China, has applied for DOE status.

Designated National Authorities

- Botswana has notified its DNA
- Singapore has launched a drive to identify CDM projects, as declared by the Minister of Environment at a large carbon market conference in Singapore.
- The DNA host country approval hitlist stands at
 - China: 932 projects (+89). The new approvals include 42 hydro, 28 waste heat recovery, 9 wind, 3 landfill gas, 2 nitric acid and gas power plants and 1 biomass power, composting and coal mine methane projects each. Total annual CER volume is estimated at 14.3 million per year of which 2.5 million come from the gas power plants. The CDM) fund which is using the proceeds of the CER tax has been formally launched by the Ministry of Finance.
 - India: 753 projects (+33).
 - Mexico: 180 projects (+2), one wastewater and landfill gas project (0.2 million CERs per year)
 - Brazil: 167 projects (+3), one hydro, landfill gas and agricultural wasteproject.
 - Malaysia: 36 projects (+0). The DNA has changed the format for the Project Idea Note and Additional Information Sheet for PDD.
 - Philippines: 27 projects (+0). Unfortunately, the DNA website has apparently been hijacked by Russian spammers.
 - Indonesia: 24 projects (+0)
 - Israel: 22 projects (+0)
 - South Africa: 18 projects (+0)
- The DNA investor country approval hitlist stands at
 - UK: 486 projects (+19). Annual CER volume is estimated at 167 million (+5 million)
 - Japan: 234 projects (+8), with an annual CER volume of 98.4 million (+0.6 million)
 - Sweden: 93 projects (+9), with an annual CER volume of 24.6 million (+0.3 million)
 - Spain: 62 projects (+0)
 - Germany: 59 projects (+19; last month's DNA report had lumped pending and approved projects in one category and thus higher numbers were reported in the last issue of the Highlights). Projects include 6 hydropower, 4 biomass power plants, 3 HFC plants, 2 wind plants cement projects and biogas projects each.

Please note that large projects may be approved by more than one investor country!

Project developers

- Inflow into the project pipeline has come down somewhat but some projects get more and more spectacular with regard to their size.
- Large new projects in the pipeline are
 - 350 MW waste heat recovery plant in steel mill (China, 6 million CERs by 2012)
 - Gas power plant (China, 4.7 million CERs by 2012)
 - 880 MW hydro plant (Brazil, 4.2 million CERs by 2012)
 - N₂O reduction from nitric acid (Brazil, 2.8 million CERs by 2012)
- *Correction: According to information from Asia Carbon, Indian wind power CDM developer Senergy has not bought a majority share in Asia Carbon.*
- The sharpest correction of a CDM project developer's share price to date happened to Ecosecurities on November 6, when the share lost 47% of its value, wiping out all gains made since the public offering. This crash was due to a reduction of projected CER volumes in the Ecosecurities portfolio by 30% (from 185 to 142 million) and by 17% for post-2012 CERs. The strong reaction of the share price is surprising, given that Ecosecurities' competitors had downgraded their portfolios by similar degrees (24-26%) in October. Ecosecurities used the recent increase in reviews of registration requests and issuances as reason for the downgrade. This deflects attention from performance questions of already registered projects, as highlighted by the other companies. The extreme effect of the announcement on share prices highlights increasing concerns about the highly leveraged nature of most publicly-listed CDM project developers. UBS and Morgan Stanley have used the crash to build up positions in Ecosecurities stock
- AgCert's shares have fallen to 6 eurocents, a mere 2% of the issuance price, indicating bankruptcy coming closer. Nevertheless, AgCert employees are speaking at almost every IETA side event at the Bali COP.
- Camco and Pioneer Carbon are planning a programme for supplying 1 million energy-efficient stoves within 3 years to rural households in Yanqing County, 60km from Beijing. Each stove is estimated to generate 8 CERs per year and uses compressed crop waste in the form of briquettes. To date, 17,000 stoves have been installed through a direct subsidy by the County. An initial trial shall cover 400 stoves. If it is successful, Camco and Pioneer will commit to finance a further 20,000 stoves. Camco's shares have plunged due to the Ecosecurities crash by over 30%.
- A survey of 50 Indian companies from 17 industry sectors done by industry association FICCI shows a surprising lack of CDM knowledge in the country that pioneered private business involvement in the CDM. 66% of the respondents saw a huge information gap related to CDM projects, while 54% saw lack of adequate capacity at the company level as a major problem.
- Indian Small Industries Development Bank of India (SIDBI) has joined forces with Ludhiana Hand Tools and Forging to set up the intermediary Envirocare to develop CDM projects in the 300 steel forging units of Ludhiana.

Incentives for CDM investment

- The EU Commission has stated that the link of the Community Transaction Log with the ITL will be delayed possibly until April 2009, as all member states would have to join at the same time. The Commission vigorously denied allegations that some 2005-2007 allowances had been counted twice. EU allowance prices have slightly edged upwards to reach 22.5 Euro for 2008 and 27 Euro for 2012 vintages. CER prices have also firmed throughout the range of qualities available on the market.
- Sources from the Dutch government have stated that it would fully achieve a 30% reduction target for 2020 domestically. Whether this stance survives EU burden sharing negotiations remains to be seen, but it signals a growing discontent of the Dutch with the Kyoto Mechanisms.
- An advisor to US senator Lieberman has explained that the exclusion of CERs from the Lieberman/Warner bill is due to additionality concerns regarding CDM projects. As a reaction the head of the CDM department at the UNFCCC Secretariat Thorgeirsson proposed carbon capture and storage as a candidate for automatic additionality.
- The web trading platform of Japan's Bank for International Cooperation saw the first CER trade.
- The London Energy Brokers' Association (LEBA) will publish a CER price index every day at 6.00pm London time "towards the end of 2007". It will be based on a volume-weighted average of CER trades transacted by LEBA firms (Cantor CO2e, Evolution Markets, GFI Brokers, ICAP Energy, Spectron Energy Services, Tullett Prebon Energy, Tradition Financial Services) and be available at http://www.leba.org.uk/index_carbon.php

Web news and downloads of the month

- A WWF-commissioned study written by Lambert Schneider, member of the Meth Panel on "Is the CDM fulfilling its environmental and sustainable development objectives?" argues that 40% of CDM projects and 20% of CERs are not additional, based on assessment of 93 registered projects. It shows a strongly differing performance of DOEs. It is available at <http://tinyurl.com/35bhoh> or http://assets.panda.org/downloads/oeko_institut_2007___is_the_cdm_fulfilling_its_environmental_and_sustainable_developme.pdf. A WWF position paper on the CDM can be downloaded at http://assets.panda.org/downloads/cdm_report_wwf_background_paper.pdf
- A very interesting report on fund volumes of carbon investment vehicles (7 billion Euro total demand from 58 funds) has been published by French Bank Caisse des Dépôts and is available at http://www.caissedesdepots.fr/IMG/pdf_07-11_Mission_Climat_Research_Report_12_Carbon_Investment_Funds.pdf
- By the end of November, 90 buyers (+19) from 27 countries (+3), 109 (+20) sellers from 35 countries (+2) and 273 service providers (+41) from 46 countries (+6) had listings on CDM Bazaar. India leads the list of service providers with 55 entries, followed by China with 33, US with 28, UK with 26 and Brazil with 16. 21 projects (+3) have been posted by sellers.
- The UK's Tyndall Centre and Ecoscurities have published a paper "The Clean Development Mechanism: An assessment of current practice and future approaches for policy", available at http://www.tyndall.ac.uk/publications/working_papers/twp114_summary.shtml
- A paper by Christiana Figueres and Michael Philips on the role or programmatic CDM in promoting energy efficiency, supported by World Bank's ESMAP programme, is available at http://esmap.org/filez/pubs/11212007125014_ScalingUpDemandSideEE.pdf
- The Japanese government has released a CDM/JI guidebook written by Pacific Consultants and DNV. Download at http://gec.jp/gec/en/Activities/cdm/CDMJ1_Manual_2007.pdf
- The catalogue of CDM decisions has now formally been unveiled and is available at <http://cdm.unfccc.int/Reference/catalogue/search>
- IGES' useful CDM in charts has been updated and is available in version 4.0 at <http://www.iges.or.jp/en/cdm/pdf/charts.pdf>

GTZ CDM capacity development

- GTZ held a presentation on a side-event at the Bali Climate Conference and presented its activities to support the development of PoA CDM. Most advanced is a programme in India to replace incandescent by energy saving light bulbs, The ambitious target is to replace 80 % - 320 million – currently use by Indian households. The PoA will be coordinated by the Indian Bureau of energy efficiency.
- The CDM capacity development scoping mission to Rwanda has been finalized at the end of November. The outcomes will be taken into consideration for the design of a GTZ training programme for 5 countries in francophone Africa.

Other news

- The number of side events at the Bali COP is breaking all records with over 300 events. CDM-related side events are not as common as in the last years (10% of total). For further information look at: http://regserver.unfccc.int/seors/reports/events_list.html.
- The Austrian CDM/JI programme is organizing its annual workshop on January 24-25, 2008.
- An Indian publisher has launched a carbon market magazine for the Indian market called "Carbon News".

Country of the month: Australia

With the landslide victory of Labour which has promised to ratify the Kyoto Protocol, Australia has moved into the centre of attention of climate policy analysts. Legally, it is possible for the new prime minister Rudd to ratify the Kyoto Protocol with one simple signature. Will Australia play an important role in the CDM market? Australia played an important role in the predecessor of the Kyoto Mechanisms, the pilot phase of Activities Implemented Jointly, by supporting 10 projects (3 in Indonesia, 2 in Mauritius and the Solomon Islands and one each in Chile, Fiji and Vietnam). Internally, the Australian Greenhouse Office (AGO) introduced a system of project-based credits. In this context, good discussions on additionality and monitoring methodologies took place which should have generated enough understanding to let Australian companies embark on CDM quickly. However, there

are several reasons why Australia will not become a big CDM player overnight. Due to its lenient emissions target of +8% compared to 1990 and the "Australian clause" of allowing to take land use emissions into account in the base year, Australia does not have a large Kyoto gap. The AGO projects a gap of about 1%. A national emissions trading system is likely to be introduced in 2010, but it is unclear whether CERs can be utilized. Australian companies have so far specialized on domestic forestry offsets, which can be used in the New South Wales trading scheme. This system started in January 2003 and covers electricity retailers and large users of electricity. Domestic offsets can be created through forestry, renewable energy, energy efficiency and non-CO₂-gas projects.

Number of the month

270 million Euro: Value of CDM project development companies wiped out by the October-November stock crash.

CDM counter (as of December 3, 2007)

- Pending large-scale baseline methodologies: 17
 - of which forestry: 3
- Approved and published large-scale baseline methodologies: 72 (including 14 consolidated ones)
 - of which forestry: 10
- Approved and published small-scale baseline methodologies: 29
- Notified DNAs: 127 (102 host countries, 25 buyer countries)
- Companies applying to become operational entity: 24
- Accredited operational entities: 18
 - Of which 7 for verification
- Projects currently open for public comments on PDD: 143
- Projects that are undergoing and have undergone the public comment period: 1972
 - Of which 44 have officially applied for registration
 - for 13 of which a request for review has been launched
 - Of which 72 have to make corrections
 - Of which 10 are undergoing review
 - Of which 52 have been rejected
 - Of which 8 have officially been withdrawn
 - Of which 238 have been submitted for public comments more than once
- Expected CERs until 2012 from those projects: 1229 million
 - Of which 45.4 million from those that officially applied for registration
 - Of which 59 million from projects with request for review and corrections requested
 - Of which 2.0 million from those undergoing review
 - Of which 41.4 million from rejected ones
 - Of which 2.4 million from withdrawn ones
- Registered projects: 859
 - expecting 1159 million CERs by 2012
 - Host countries: 50
 - Buyer countries: 20
- Issued CERs: 95.9 million
 - Projects with issued CERs: 270
- CER price: 1.5-5 Euro for post-2012 vintages, 6-8 Euro for medium-risk forwards, 9-13 Euro for low-risk forwards, 11-15 Euro for registered projects, 16-18 Euro for issued CERs, 17.9 Euro spot price on Nord Pool exchange

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