

## CDM Highlights 55

December 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](mailto:climate@gtz.de)

### Editorial

Dear reader!

The threshold of 100 million issued CERs has been passed. After a "high noon" plenary session, the Bali roadmap could be agreed by the COP, which increases the likelihood of a relatively stringent post-2012 climate policy regime and thus bolsters CDM demand. The agreed Kyoto Mechanisms review will lead to a strong discussion about reform needs of the CDM in early 2008. EB elections bring in a number of familiar faces.

From this issue, the publication date of CDM Highlights will be shifted to the 15th of each month. This is due to the high variability in the publication date of the data sources for the "CDM counter"

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### COP/MOP

- At the COP in Bali a roadmap for the post-2012 negotiations was agreed that includes the following features
  - Finalization of negotiations at COP 15 in December 2009, with two additional negotiation rounds each year
  - Two linked negotiation tracks for UNFCCC parties and Kyoto Protocol parties, both run as "Ad hoc working groups"
  - The Kyoto track is based on a target corridor of 25-40% emission reduction from 1990 to 2020
  - The UNFCCC track contains no numerical target values but a reference to the part of the IPCC report discussing necessary reduction levels. It contains the four "building blocks" adaptation, mitigation, technology transfer, and financing. The main bone of contention was the mitigation section. While the US and Canada and others sought stronger language on developing country action/commitments, the G-77/China opposed this, and proposed strong language on Annex I commitments. The negotiations almost collapsed in the final plenary when India proposed a weakening of the compromise text and the US formally opposed it, but withdrew its opposition after a heated debate. The critical text now for the first time in climate negotiations history acknowledges mitigation commitments by developing countries: "nationally appropriate mitigation actions by developing country parties in the context of sustainable development, supported by technology and enabled by finance and capacity building in a measurable, reportable and verifiable manner". This is mirrored by "measurable, reportable and verifiable nationally appropriate mitigation commitments or actions, including quantified emission limitation and reduction objectives by all developed countries, taking into account differences in their national circumstances". For the first time language in UNFCCC negotiations, the terms "developed" and "developing" countries, rather than "Annex I" and "non-Annex I" countries are used.
- A formal review of the functioning of the Kyoto Mechanisms is undertaken. Originally, Switzerland had proposed a review of the CDM. Many Parties expressed their concern on increasing complexity of the CDM process, especially its review system, and sought for review and possible simplification of the mechanism. Submissions on "scope, effectiveness and functioning of the flexible mechanisms" are due March 7.
- The administration fee for CDM projects in least developed countries will be waived
- The threshold for small-scale CDM forestry projects was raised from 8000 to 16,000 t annual CO<sub>2</sub> sequestration Bolivia had proposed 48,000 t, Pakistan and others 32,000 t. The threshold increase was opposed by Brazil, India, Tuvalu, etc. The final outcome seems to be a balanced political compromise.
- Two non-renewable biomass methodologies were approved: (i) switch from non-renewable biomass for thermal application by the user, and (ii) energy efficiency measures in thermal applica-

tions of non-renewable biomass. This resolves an issue that had prevented such projects with high development benefits for two years.

- No decision on new HFC-23 projects could be taken. After an initial opening, the EU hardened its opposition, apparently for use as a bargaining chip. The US's strong opposition seems to be driven by its intention to take leadership in Ozone layer protection.
- As expected, no decision on carbon capture and storage (CCS) could be taken. Many major Parties like Canada, China, EU, Japan, OPEC countries were in support for the inclusion of CCS in the CDM, opposed by Brazil and AOSIS. It is of note that India, which has a high CCS potential, opposed to the inclusion of CCS in the CDM stating that "sustainable development is the primary objective of the CDM."
- As in the past COPs, submissions on new proposals for additionality demonstration were encouraged
- New CDM EB members and alternates were elected as follows:
  - Member Ms. Natalia Berghi (Moldova), Alternate Ms. Diana Harutunyan (Armenia)
  - Replacement member Mr. Hugh Sealy (Barbados)
  - Member Mr. Clifford Mahlung (Jamaica), Alternate H.E. Mr. Tuiloma Neroni Slade (Samoa)
  - Member Mr. Lex de Jonge (Netherlands), Alternate Mr. Pedro Barata (Portugal)
  - Member Mr. Paulo Manso (Costa Rica), Alternate Mr. Hussein Badarin (Jordan)
  - Member Mr. Phillip Gwage (Uganda), Alternate Mr. Xuedu Lu (China)
  - The elections bring in a number of members with substantial experience in CDM, albeit not with actual implementation of projects
- Expansion of the adaptation fee to JI and emissions trading will be considered in the Kyoto track; Russia and Ukraine had strongly opposed this.
- Regarding avoided deforestation, a pilot phase for demonstration projects was agreed. Projects have to get formal host country approval. Estimates of reductions or increases of emissions should be results based, demonstrable, transparent, and verifiable, and estimated consistently over time and be done on a national basis. Subnational projects have to take into account leakage. The baseline shall be historical emissions. Projects are to be reported on a Web platform and independent expert review is encouraged, but not mandatory. The whole design is reminiscent of the pilot phase for AIJ, which paved the way for the CDM.
- The Adaptation Fund was agreed after intensive lobbying by representatives from the GEF who were determined to secure a role in servicing the Fund. In the end, they secured an interim role in providing a secretariat function. A Board consisting of 16 members (2 each from each of the five UN regional groups, one from AOSIS, one from the LDCs, two non-Annex I parties, and two Annex I parties) will decide on rules, if necessary by 2/3 majority.

## Designated National Authorities

- Greece has notified its DNA
  - The DNA host country approval hitlist stands at
    - China: 976 projects (+44). The new approvals include 20 hydro, 8 waste heat recovery, 3 wind and biomass power projects, 2 nitric acid, cement blending and solar cooker projects, 1 gas power plant, coal mine methane and gas flaring reduction projects each. Total annual CER volume is estimated at 6 million per year.
    - India: 753 projects (+0).
    - Mexico: 180 projects (+0)
    - Brazil: 171 projects (+4)
    - Malaysia: 36 projects (+0).
    - Philippines: 27 projects (+0).
    - Indonesia: 24 projects (+0)
    - Israel: 22 projects (+0)
    - South Africa: 18 projects (+0)
  - The DNA investor country approval hitlist stands at
    - UK: 486 projects (+0).
    - Japan: 256 projects (+22), with an annual CER volume of 106 million (+8 million)
    - Sweden: 93 projects (+0)
    - Spain: 67 projects (+5), two hydro, one landfill, one agricultural waste and one forestry projects. Annual CER volume stands at 20.5 million (+1.5 million)
    - Germany: 59 projects (+0)
- Please note that large projects may be approved by more than one investor country!

## Project developers

- Inflow into the project pipeline continues to fall slowly.
- Large new projects in the pipeline are
  - 1020 MW hydro plant (Bhutan, 15.6 million CERs by 2012)
  - 3 gas power plants (China, 5.5 and 5.7 million CERs by 2012, Azerbaijan, 3.4 million CERs by 2012)
  - 130 MW waste heat recovery plant in steel mill (India, 4.1 million CERs by 2012)
- With the Delhi metro project, the first railway project has got registered. CERs are awarded for brakes that feed electricity back into the system; the annual volume is estimated at 41,000. CERs have been sold to JBIC at 6 Euro/t. This is likely to lead to a number of similar projects to apply for CDM status.
- Indian unilateral project developers that have been sitting on the fence regarding CER sales are starting to embark on forward sales contracts. This shows an expectation of falling prices in the future.
- Chinese power utility Guodian has sold 3 million CER forwards from four supercritical coal power plants to EcoSecurities and Deutsche Bank at 10 Euro per CER. Another deal had been closed with EDFT in November.
- Camco reports an increase of its CER portfolio to 141 million by end December (+46 million in 2007). In the last 3 months, 5.5 million CERs have been written off, bringing total writeoffs to 35 million (19% of its originally acquired portfolio).
- Project developer stocks have continued their downward trend. AgCert's shares are down to 2 eurocents. Econergy's shares have lost 40% in the last month.

## Incentives for CDM investment

- Japan is aggressively moving to acquire CERs and AAUs
  - The 2008 government budget for CER acquisition has been set at 190 million Euro (an increase from 80 million in 2007).
  - China and Japan agreed that Japanese ODA can be used for Japanese CDM projects in China. Hitherto China had objected the use of ODA if Japan would not scrap unfavourable loan conditions. JBIC will submit 6 projects for the CDM to which ODA loans of 285 million Euros have been made. CER volumes from these projects are estimated at 10 – 15 million by 2012.
  - Hungary and Japan signed a MoU on AAU trading
  - Japanese electric utilities plan to buy 120 million CERs under their voluntary agreement
- Brazil's national development bank BNDES has officially launched a 77 million Euro carbon fund
- Nordic Investment Bank allocates 15 million Euro to the European Post-2012 Carbon Fund
- Vertis Environmental Finance and Bunge Emissions Fund have done the first CER spot trade through the Swiss registry.

## Web news and downloads of the month

- A guidebook on CDM methodologies and the principles underlying CDM rules is available at [www.perspectives.cc/home/groups/7/Publications/CDM\\_Guidebook\\_Perspectives\\_DEFRA\\_122007.pdf](http://www.perspectives.cc/home/groups/7/Publications/CDM_Guidebook_Perspectives_DEFRA_122007.pdf)
- The World Bank's report on its carbon finance activities in 2007 can be downloaded at [http://carbonfinance.org/docs/AnnualReport2007\\_FullReport.pdf](http://carbonfinance.org/docs/AnnualReport2007_FullReport.pdf)
- Presentations from the following CDM-related side events are available at [http://regserver.unfccc.int/seors/reports/events\\_list.html](http://regserver.unfccc.int/seors/reports/events_list.html)
  - Understanding the CDM: finding the way through the maze of rules
  - How can the CDM help improve air quality in megacities?
  - Scaling up energy efficiency under the CDM - Do we need a 'Plan B'?
  - A/R CDM projects stranded? Methodologies and tools that help them fly
  - New carbon markets in Japan, Africa and Latinamerica
  - Potentials of CDM forestry in Malaysia
  - Co-benefits approach: development needs-oriented efforts to address climate change and CDM
  - Implementation of the Kyoto Protocol in Russia: current status and outlook (several presentations on JI in Russia)
  - A presentation on CDM performance is available at [http://regserver.unfccc.int/seors/file\\_storage/nim8s6lt07g86xm.ppt](http://regserver.unfccc.int/seors/file_storage/nim8s6lt07g86xm.ppt)

- A presentation on CDM post 2012 is available at:  
[http://regserver.unfccc.int/seors/file\\_storage/4k3x3onciz0myqt.pdf](http://regserver.unfccc.int/seors/file_storage/4k3x3onciz0myqt.pdf)
- Presentations from the following IETA COP side events are available at [www.ieta.org/ieta/www/pages/index.php?IdSitePage=1518](http://www.ieta.org/ieta/www/pages/index.php?IdSitePage=1518)
  - Increasing the Regulatory Capacity of the CDM Executive Board
  - Introduction to CDM Methodology and Kyoto Protocol Process
  - Contracting CDM Projects
  - Financing with Carbon Assets
  - Nairobi Framework for the CDM
  - Additionality: Never Ending Story or Workable Solution?
  - The Path Forward for CDM in Asia
  - Legal issues in the CDM
  - Programmatic CDM
- Baker Mc Kenzie is currently developing an online CDM Rulebook which will be published at [www.cdmrulebook.org/](http://www.cdmrulebook.org/). To be informed about the launch date, register at [www.cdmrulebook.org/Page/Register](http://www.cdmrulebook.org/Page/Register)
- By the end of December, 98 buyers (+8) from 27 countries (+0), 117 (+8) sellers from 35 countries (+0) and 290 service providers (+17) from 46 countries (+0) had listings on CDM Bazaar. India leads the list of service providers with 57 entries, followed by China with 36, US and UK with 28, and Brazil with 17. 22 projects (+1) have been posted by sellers.

### **GTZ CDM capacity development**

- GTZ representatives participated on several side-events as a panellist at the climate conference in Bali. Different speeches were given about GTZ experience in the field of Programme of Activities. The latest fact sheet summarises some information: <http://www2.gtz.de/dokumente/bib/07-1614.pdf>

### **Other news**

- Henry Derwent who has been a seasoned climate negotiator with the UK government has become IETA president. This will reinforce the links between the carbon business and the UK government.

### **Country of the month: Costa Rica**

Costa Rica was the first developing country that really embraced market mechanisms in climate policy. Already in 1994, it pushed strongly for project-based emissions crediting and was instrumental in getting the pilot phase for Activities Implemented Jointly approved at COP 1 in 1995. Costa Rica developed 9 AIJ projects, of which 4 in forestry and 4 in renewable energy. Costa Rica also experimented with innovative administrative structures for host country approval, such as outsourcing from the public administration. When CDM was included in the Kyoto Protocol, many observers thought that Costa Rica would be one of the first countries benefiting from the mechanism. Surprisingly, this was not the case. To date, Costa Rica only has 5 registered CDM projects (two hydro, one wind, one landfill gas and one waste project totalling 2.1 million CERs by 2012), less than neighbouring Honduras (12 projects, 1.7 million CERs) and equal to Guatemala and Panama (5 projects, 2.4 and 0.8 million CERs, respectively). The main reasons are high percentage of hydropower for energy supply and therefore a relatively unattractive electricity baseline emissions factor and the inability to include forest protection projects in the CDM because of very ambitious forest policy in the past. Recently, Even more ambitious, Costa Rica announced that it wants to become carbon-neutral by 2020. Tourists and businesses are to be charged a voluntary "tax" of 10 \$ per t CO<sub>2</sub>, with the revenues going to forest conservation, reforestation, and research in protected areas.

The Costa Rican DNA, OCIC, has a website at <http://ocic.imn.ac.cr/index.html>, unfortunately only in Spanish (the English version is empty). It is based on a decree issued in March 2004, after the earlier structure had been unable to achieve self-financing, as originally wished. As first step, a PIN has to be submitted for a letter of no objection; evaluation will be done within 30 days. Once the PDD has been prepared, it is evaluated with respect to commercial feasibility, technology transfer, job creation and another three sustainability criteria. Projects must show that the CDM was considered before financial closure.

Costa Rica is an example that shows that an early start is not a sufficient condition for success in the CDM. It has to be accompanied by continued efforts to mobilize the private sector and to take into account development of international regulation. With the election of a Costa Rican to the EB, Costa Rica might become more visible in the CDM market.

### **Number of the month**

1020 MW: largest hydro project submitted to the CDM to date (Tala project in Bhutan, submitted on Dec. 22)

### **CDM counter (as of December 31, 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: 128 (102 host countries, 26 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: 110
- Projects that are undergoing and have undergone the public comment period: 2032
  - Of which 40 have officially applied for registration
  - for 36 of which a request for review has been launched
  - Of which 53 have to make corrections
  - Of which 10 are undergoing review
  - Of which 52 have been rejected
  - Of which 9 have officially been withdrawn
  - Of which 255 have been submitted for public comments more than once
- Expected CERs until 2012 from those projects: 1266 million
  - Of which 23.1 million from those that officially applied for registration
  - Of which 46.2 million from projects with request for review and corrections requested
  - Of which 23.1 million from those undergoing review
  - Of which 41.4 million from rejected ones
  - Of which 2.4 million from withdrawn ones
- Registered projects: 895
  - expecting 1178 million CERs by 2012
  - Host countries: 50
  - Buyer countries: 20
- Issued CERs: 102.8 million
  - Projects with issued CERs: 281
- 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, 17.3 Euro spot price on Nord Pool exchange

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### **Imprint**

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