

CDM Highlights 56

February 2008

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 EU Commission's declaration not to allow CER imports beyond the level accepted until 2012 – unless other countries commit to stringent targets - casts a chill on the CDM market. For the first time in more than a year, CER prices have fallen significantly. On the other side, the nomination of John McCain as Republican candidate for the US presidency makes it virtually certain that the US will contribute constructively to post-2012 negotiations. However, the turmoil on the world's financial markets remains the gorilla in the closet that might relegate climate policy to a lower priority than seen in the last years – and thereby sending the CER market sharply downwards. Let us hope that economic policy can avoid such a fallout...

Anja Wucke, GTZ and Axel Michaelowa, Perspectives

UNFCCC, EB and its panels

- At its 37th meeting from Jan. 30 – Feb. 1, the EB has taken the following decisions:
 - Election of R.K. Sethi (India) as EB chair. Sethi is known for his position that the CDM rules should not be overly burdensome for project developers. Lex de Jonge (Netherlands) serves as vice-chair
 - Methodologies that have got a preliminary recommendation by the Meth Panel, i.e. a request to revise the methodology draft, have to submit the revised version within 3 months. Otherwise, the methodology is deemed to be withdrawn.
 - No DOE under spot check was suspended.
 - A methodology for replacing SF6 as a cover gas in magnesium production was approved. It will be applicable for several large projects.
 - The methodology ACM 0006 for biomass electricity shall be simplified. The EB clarified Scenario 14 in a restrictive sense, stating that biomass use would not be allowed to increase due to the project
 - Several items of major importance were not decided by the EB and deferred, sometimes substantially:
 - The Validation and Verification Manual will at best be decided in the May session of the EB. While a draft exists, it has not been published for comments and was only discussed in a closed session
 - The revision of the additionality tool proposed by the Meth Panel, which would have led to important clarifications regarding the investment test, was deferred without a deadline
 - The work on energy efficiency, which may lead to a top-down baseline methodology, is deferred until the August session of the EB
 - Out of 36 requests for reviews for registration, 4 projects were registered immediately and 5 will be registered after making the corrections they have proposed. 16 projects have to make corrections, some of which will be substantial. 11 relatively small projects have been placed under review, 10 of which for additionality reasons. However, review decisions are not systematic and several projects (such as Chinese hydro power projects) have not been placed under review. Moreover, none of the five gas power plants in China and India with a request for review was placed under review.
 - Out of 10 projects under review, 5 (all from India) were rejected, 2 on ground of lacking additionality, two because Scenario 12 of ACM 0006 is not applicable and 1 due to use of the wrong methodology. Another 2 projects were rejected due to lack of additionality after corrections.
 - Out of 14 projects with a request for review for issuance, one was issued CERs immediately, and 11 have to provide corrections. Two projects were placed under review. While the project

- under review got all CERs issued, a bagasse cogeneration project from India withdrew its request for issuance of 0.1 million CERs.
- The EB raised the issue of falsification of information in PDDs, which was also stressed by the DOE forum intervention
- EB staff now numbers 70 people, by far the largest department in the UNFCCC Secretariat. The JI Supervisory Committee has 4 staff...
- The first four small-scale methodologies have been submitted under the new procedure. Many of them mirror existing large-scale methodologies

Designated National Authorities

- The DNA of the United Arab Emirates has decided on its approval procedures. They entail two steps. The first step – a letter of endorsement – has been given to five projects that reduce fugitive emissions from Abu Dhabi National Oil Company.
 - The vanished Egyptian DNA website is now again online at www.cdm-egypt.org
 - The DNA host country approval hitlist stands at
 - China: 1068 projects (+92). The new approvals include 61 hydro, 9 waste heat recovery, 7 wind, 5 biomass power projects, 3 fuel switch, and solar cooker projects, 2 gas power plants, coal mine methane and 1 cement blending, waste, landfill gas and agriculture waste projects each. Total annual CER volume is estimated at 10.8 million per year.
 - India: 753 projects (+0).
 - Mexico: 184 projects (+4). Two landfills and two energy efficiency projects have been added, with a small volume of 0.4 million CER per year.
 - Brazil: 175 projects (+4). Three hydro and one landfill gas project have been added.
 - Malaysia: 36 projects (+0).
 - Philippines: 27 projects (+0).
 - Indonesia: 24 projects (+0)
 - Israel: 22 projects (+0)
 - South Africa: 19 projects (+1)
 - The DNA investor country approval hitlist stands at
 - UK: 532 projects (+46). Annual CER volume is estimated at 176 million (+14 million)
 - Japan: 276 projects (+20), with an annual CER volume of 108 million (+1.8 million)
 - Sweden: 108 projects (+15). All new projects are from China (annual CER volume +0.6 million)
 - Spain: 67 projects (+0)
 - Germany: 60 projects (+1). One hydro project was added.
- Please note that large projects may be approved by more than one investor country!

Project developers

- Inflow into the project pipeline has stabilized somewhat after its recent fall.
- Large new projects in the pipeline are
 - Supercritical coal power plant (India, 4.4 million CERs by 2012)
- Statoil, Norwegian's state oil company, is planning to set up CCS CDM projects in India through a partnership with India's Oil and Natural Gas Corporation (ONGC)
- On January 9, a Brazilian CDM hydro project's (Apertadinho Small Hydroelectric Power Plant) dam failed, leading to a flash flood that would have hit the medium-sized city of Pimenta Bueno, if it had not been retained by the reservoir of another hydro plant. The project had not yet been registered.
- The futuristic city "Masdar" which will be built for 50,000 habitants near Abu Dhabi between 2008 and 2016 is envisaging to get CDM credits for a demand reduction of 600 MW compared to "business-as-usual" buildings.
- With the financial crisis gripping stock markets, project developer shares have been hit severely. AgCert and Ecorescurities have lost 50% since the beginning of 2008, Eonergy 20% and Trading Emissions 10%. Only Camco has held steady.

Incentives for CDM investment

- The EU Commission has published its draft detailed climate policy strategy until 2020. It will spark strong lobbying by emitters and governments alike and contains the following elements:
 - Allocation of EU allowances would be done on the EU level rather than by each member state

- No CER import by EU ETS companies beyond the 1.45 billion CER cap agreed for 2008-2012 if no international agreement is reached or does not lead to a EU target of more than 20% emission reduction. Unused parts of the import cap can be used up after 2013, but only by projects “established” before 2013 or new projects in LDCs
- Even under a 30% reduction target the import cap would be lower than today (0.86 billion CERs for 2013-2020)
- A bilateral treaty is required for acceptance of CERs from new projects if no post-2012 agreement is achieved. Such treaties only cover renewables and energy efficiency projects.
- Governments may import up to 0.7 billion CERs in the 20% target case and 1.4 billion in the 30% case. No such limits apply in 2008-2012
- Ukraine sets a minimum price for sales of JI credits. In contrast to the situation in China, the price will be published and fixed for 3-month periods. Regarding the CDM, this minimum price will lower the competitive pressure of Ukrainian sales.
- After an agonizing waiting period, Russia has finalized the long-awaited JI rules. The Russian government seems to be willing to limit ERU sales to 205 million. This will ease pressure on the CDM market.
- The Hungarian government has enacted a law on track 1 JI and Green Investment Schemes. Revenues from AAU sales are to be used for further emission reductions, forestry or adaptation.
- An Austrian company “Climate Corporation” has launched a new fund “Energy Austria CDM Portfolio”, with 31.6 million Euro subscribed by eight Austrian companies
- After last months announcement of financing a carbon fund, Brazil’s national development bank BNDES has allocated 77 million Euro to a second carbon fund, called “Sustain Capital” and managed by old CDM hand Marco Fujihara
- The EEX exchange in Leipzig will start CER futures trading at the end of March
- After getting parliament approval, the Indian Multi-Commodities Exchange has started trading in CER futures. But no prices are listed on its website which shows that trading intensity seems to be rather low.
- Hans-Jürgen Stehr, former EB chair, is embarking on an initiative to twin microfinance and the CDM, supported by the Danish government

Web news and downloads of the month

- A number of interesting presentations on the CDM that were held at the Austrian CDM/JI workshop can be downloaded at <http://www.klimaschutzprojekte.at/de/portal/aboutus/currentissues/>
- Criticism of several large CDM hydro projects as well as a monthly updated listing of all CDM hydro projects can be found at <http://www.internationalrivers.org/en/climate-change/carbon-trading-cdm>
- A news service on the CDM scanning newspaper articles worldwide is available at <http://www.inboxrobot.com/news/clean-development-mechanism-cdm>
- A similar news service, but focusing on Asia, is available at <http://asiacleanotech.wordpress.com/category/carbon-credits/>
- The specifications of the first CER contract traded outside industrialized countries can be found at http://www.mcxindia.com/ContractSpecifications/CarbonCredits_dec08.pdf
- By the end of January, 114 buyers (+16) from 27 countries (+0), 124 (+7) sellers from 35 countries (+0) and 306 service providers (+16) from 48 countries (+2) had listings on CDM Bazaar. India leads the list of service providers with 61 entries, followed by China with 36, US with 30, UK with 28, and Brazil with 17. 27 projects (+5) have been posted by sellers.

Country of the month: Austria

Austria is one of the EU countries with the largest Kyoto gap, currently 36% or 123 million t CO₂. Despite a highly environmentally aware population, this has so far not led to any significant domestic climate policy programmes. Therefore, the Kyoto Mechanisms play an increasingly important role in Austrian climate policy. In 2003, the Austrian CDM/JI programme was set up, which is administered by Kommunalkredit, a public finance institution, with a comprehensive website at www.ji-cdm-austria.at and a staff of 9. With a budget of 400 million Euros, it targets acquisitions of 45 million CERs and ERUs, thus only a third of the Kyoto gap. The programme has run 5 rounds of tenders. Its project pipeline includes 50 projects with signed ERPAs (35 CDM and 15 JI) for 22 million CERs and 9.8 million ERUs. Moreover, 5.4 million CERs and ERUs are to be acquired through shares in carbon funds. Austria is launching an African initiative, focusing on Ethiopia, Ghana, Uganda and Tanzania.

Number of the month

1068: projects approved by the Chinese DNA

CDM counter (as of January 31, 2008)

- Pending large-scale baseline methodologies: 25
 - of which forestry: 3
- Pending small-scale baseline methodologies: 4
- Approved and published large-scale baseline methodologies: 73 (including 14 consolidated ones)
 - of which forestry: 10
- Approved and published small-scale baseline methodologies: 31
- 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: 108
- Projects that are undergoing and have undergone the public comment period: 2126
 - Of which 45 have officially applied for registration
 - for 47 of which a request for review has been launched
 - Of which 48 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 264 have been submitted for public comments more than once
- Expected CERs until 2012 from those projects: 1343 million
 - Of which 43.5 million from those that officially applied for registration
 - Of which 85.6 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: 909
 - expecting 1184 million CERs by 2012
 - Host countries: 50
 - Buyer countries: 20
- Issued CERs: 114.1 million
 - Projects with issued CERs: 288
- CER price: 1.5-5 Euro for post-2012 vintages, 6-8 Euro for medium-risk forwards, 9-12 Euro for low-risk forwards, 10-14 Euro for registered projects, 13-15 Euro for issued CERs, 14.7 Euro spot price on Nord Pool exchange

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Deutsche Gesellschaft für Technische
Zusammenarbeit (GTZ) GmbH
- German Technical Cooperation -
Dag-Hammarskjöld-Weg 1-5
65760 Eschborn
Germany
www.gtz.de/climate

Author: Axel Michaelowa, Perspectives GmbH