

## CDM Highlights 59

May 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](mailto:climate@gtz.de)

### Editorial

Dear reader!

The 1000<sup>th</sup> CDM registration should be a time for celebration in the CDM world but is overshadowed by a public debate getting more and more negative. The Wall Street Journal started an unprecedented blitz against the CDM and several studies from the US criticize the CDM. Benchmarking instead of project-based additionality testing gains more and more supporters and the first such methodology is recommended by the Meth Panel; its implementation problems are not yet addressed to any extent.

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### UNFCCC, EB and its panels

- At the UNFCCC Bangkok Climate Change Talks, the CDM was discussed in an in-session workshop:
  - China criticized the low efficiency of the CDM system, inconsistent treatment of similar projects, complicated methodological requirements, and very limited contribution to technology transfer. It proposed removal of the additionality test for certain project types, but did not specify those.
  - The EU stated that “CDM has delivered real and measurable benefits” and proposed that for advanced developing countries there should be a move beyond offsetting and new mechanisms developed to “incentivise increased mitigation contributions”. For less developed countries a strengthened CDM should drive technology transfer and economic transformation. Overall, environmental integrity was seen as key to an offsetting mechanism; possible perverse incentives resulting from (low-cost) CDM should be addressed. The EU proposed increased use of technology benchmarks and stressed the need to carefully watch demand and supply.
  - Japan wants to include nuclear and CCS and promote energy efficiency
  - Tanzania proposed centralized sustainable development (SD) criteria as “leaving the issue of SD at the prerogative of host country parties does not work”. It called for abolishing the investment test as this was preventing involvement of small companies
  - Tuvalu sees an enhanced risk to the environmental integrity of the CDM if it is expanded by sectoral and programmatic approaches. It proposed not to have sectoral CDM.
  - IETA chairman Dervent stated bluntly “Don’t expect the private sector to enforce environmental integrity: rather to find the maximum emission reduction within rules and guidelines set by public sector”
  - Brazil and Tuvalu continue to oppose avoided deforestation in the CDM
- **Mexico** proposed a **multilateral climate fund**, which would finance mitigation and adaptation – as long as Adaptation Fund can not be used, in as well as technology transfers to developing countries. Contributions would be based on per capita emissions, GDP and population; only LDCs would be exempt. It remains to be seen whether this proposal will be seen as real option; U.S. analysts seem to do so.
- The EB published the **draft of the Validation and Verification Manual** (VVM, download at <http://cdm.unfccc.int/EB/039/eb39annagan1.pdf>), which is to be decided at its 39<sup>th</sup> meeting. It is not revolutionary, especially as it allows DOEs leeway in deciding which sources are appropriate for validation. Key elements are
  - The VVM is mandatory and will be updated regularly
  - Principles of the CDM are accuracy, completeness, conservativeness, consistency, relevance and transparency
  - Validation is to be done through cross-checks between information in the PDD and “independent background investigation”, interviews with “relevant stakeholders in the host country” and comparison with similar projects in the host country

- Corrective Action Requests and Clarification Requests are defined
- Issues raised through stakeholder comments are to be further discussed and elaborated in the validation report but the validator does not need to “enter in a dialogue” with the entity that provided the comment
- Methodology-related guidance supersedes guidance regarding a tool applied in that methodology
- Validators have to ensure that baseline emission calculations can be replicated by using data and parameters listed in the PDD
- Additionality has to be assessed by the validator on the basis of local knowledge and sectoral expertise
- Projects that were available for public comment before their start date have to prove “serious consideration” of the CDM. “Serious” means that the project would not have been undertaken without the CDM incentive; the validator has to ask how financing of project was possible
- Likelihood of variation of parameters used for sensitivity analysis shall be assessed
- If a benchmark is used in the investment test, the validator has to check consistency of past investment behaviour of the project developer with that benchmark
- Barriers which impact in a clear and definable way on project profitability are not accepted as barriers. Barriers are to be assessed in the view of a “reasonable investor”; they have to be supported by independent sources.
- The common practice test has to check whether a project type is “widely observed”; there is no specification of what “widely observed” means.
- For assessment of the monitoring plan, a site visit is required
- Verification can only be done if a project is implemented according to the design specified in the PDD. A verifier can avoid a site visit with appropriate justification
- If CER volumes increase compared to the estimate made in the PDD, the verification report has to describe which parameter has led to the increase
- Deviations to a monitoring plan only apply to one monitoring period; for future periods, the monitoring plan has to be revised
- All documents, including legends in figures and excel files need to be in English
- **The EB’ Joint Workshop** on April 12-13 discussed challenges in **energy efficiency methodologies**, accreditation standards of DOEs and the VVM
  - Validators would like to see the VVM to become applied 3 months after its approval by the EB for all projects starting validation and to all projects submitted for registration after 6 months
  - Validators would support that projects should be submitted for validation less than 1 year after their start, otherwise they would not be able to show “serious consideration” of the CDM
  - According to validators, the investment test should be audited by a financial expert or chartered accountant
  - Verifiers stressed that project design often changes during the crediting period and call for a procedure for addressing deviations from the project design similar to the revision of a monitoring plan
  - Validators complained that a validation used for witnessing in the context of accreditation lasts on average 2.5 months longer than a normal validation. This leads to the necessity of charging a lower validation fee than normal.
- **The Meth Panel** met on April 7-11 and made the following proposals
  - Approval of three methodologies for production of energy efficient refrigerators, low GHG-intensive refrigerants and energy efficiency in iron smelters. For the latter, investment analysis is prescribed.
  - The refrigerator energy efficiency methodologies are novel inasmuch they apply a **benchmark** that implicitly includes additionality testing. There is thus no separate additionality test. The benchmark is the lower value of a) the best 20% of refrigerators in the host country market, b) the historic efficiency achieved by the manufacturer. An ex-ante benchmark can be chosen that includes an autonomous efficiency improvement of 3.5% per year or the average improvement reached in the last 10 years in the host country/by the manufacturer. Alternatively, the benchmark can be monitored ex post, including the refrigerators sold under the project. Import and export of refrigerators are not covered. Sampling of actual electricity consumption of refrigerators is not required. The DNA has to guarantee that no double counting of emission reduction occurs. The developer of the methodology has asked the EB to exclude the project refrigerators from the benchmark as otherwise the benchmark will become equal to the project very soon.
  - A proposal to allow new capacity for adipic acid production plants reducing N<sub>2</sub>O emissions (change in AM 21) was rejected
  - The methodology for steam savings (AM 18) was changed to take into account production capacity changes of the underlying factory

- The methodology for thermal power plant refurbishment (AM 0061) would allow a capacity increase of 15% instead of 5%
- Methane avoidance from utilization of empty fruit bunches in the palm oil industry would increase due to the classification as “garden waste”, reversing an earlier decision that they should be classified as “wood waste”.
- Monitoring periods for HFC-23 projects have to add up to yearly durations to enable calculation of the capacity threshold. HFC-23 stored from before the start of the crediting period as well as destruction of HFC-23 stored in a period where the threshold has been reached cannot generate CERs.
- A discount of emissions reduction level using IPCC guidelines is proposed if expected overall random uncertainty reaches more than 15% (applying a 95% confidence interval). For example, this would lead to a discount of 16.4% if uncertainty is between 50 and 100%.
- The **Small Scale Working Group** met from April 14-16 and made the following recommendations
  - Approval of three methodologies – Reduction of fertilizer use in agriculture (III.A), methane recover from non-coal mining (III.U) and improvement of waste energy use in industrial facilities (II.I). The fertilizer reduction methodology would be the first methodology for the agricultural sector.
  - The deemed savings methodology (see last issues) was called an “innovative approach” but problems found regarding the lack of monitoring and application for equipment with variable energy consumption
  - The energy efficiency methodology for specific technology (II.C) now takes into account transmission and distribution losses, increasing CER volumes.

### Baseline methodologies

- Four new small-scale methodologies have been submitted, covering biofuel, hydrogen energy systems, blending of concrete and decrease of coke consumption intensity in steel production .

### Designated Operational Entities

- Princeton University’s GHG Management Institute is offering **online courses for greenhouse gas auditors**, targeting the shortage of qualified staff for validators and verifiers. The list of planned course can be downloaded at <http://www.ghginstitute.org/docs/courselist.pdf> .

### Designated National Authorities

- The British Climate Change Projects Office has moved its website to [www.berr.gov.uk/sectors/ccpo](http://www.berr.gov.uk/sectors/ccpo)
- The DNA host country approval hitlist stands at
  - China: 1197 projects (+47). The new approvals include 20 hydro, 9 waste heat recovery and wind, 3 biomass power plants, 2 LFG and nitric acid plants and one CMM and biogas project each. Total annual CER volume is estimated at 7.4 million per year, with 1.7 million coming from one 456 MW hydropower project.
  - A validator has raised doubts regarding the baseline emission factor for electricity grids published by the Chinese DNA. The validator stated that supercritical power plants are currently commercially available in China and thus the efficiency used for coal power plants in the build margin calculation should be increased from 35.4 to 38.4%. This leads to a reduction of the combined margin baseline emission factor of about 2%.
  - India: 870 projects (+0).
  - Mexico: 189 projects (+0).
  - Brazil: 179 projects (+1).
  - Philippines: 55 projects (+0).
  - Indonesia: 47 projects (+0).
  - Israel: 22 projects (+0).
  - Colombia: 20 projects, of which 5 hydro, 3 transport, 2 fuel switch, composting and nitric acid and 1 each wastewater, cement blending and forestry. Total annual CER volume is estimated at 2.6 million
  - South Africa: 18 projects (+0).
- The DNA investor country approval hitlist stands at
  - UK: 693 projects (+35). Annual CER volume is estimated at 197 million (+ 5 million)

- Japan: 276 projects (+0)
- Netherlands 182 projects
- Sweden: 124 projects (+0).
- Spain: 72 projects (+0).
- Germany: 72 projects (+10).

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

## Project developers

- 138 new projects have been submitted, as well as 45 projects that had been submitted in the past.
- Large new projects in the pipeline are
  - One hydro project of 201 MW (China, 3 million CERs by 2012)
- In China, Swedish project developer Tricorona bought 7 million CER forwards from 900 MW of wind projects of Datang Corporation and Shenhua Group. The price reached over 13 Euro per CER despite the projects having neither DNA approval nor CDM EB registration
- German 3 C and Swiss Factor have merged to form Firstclimate, which has a staff of 80. Its aim is a market share of at least 5%.
- Share prices of all CDM developers listed on the London stock exchange have stabilized or slightly increased in April.
- Camco posted a loss of 12 million Euro in 2007, while staff grew from 43 to 207. The CER portfolio stood at 107 million; ERUs at 34 million. Average cost of CER/ERU acquisition was 7.3 Euro. In the first quarter, the CER portfolio shrank by 3 million CERs (while ERUs increased by 2 million) and the average purchase price of the total portfolio increased by 0.2 Euro.
- Ecosecurities posted a loss of 45 million Euro in 2007, while staff grew from 209 to 300. Its CER portfolio stood at 130 million. Average cost of CER/ERU acquisition was 6.5 Euro. Forward CER sales contracts reached 43 million, with an average price of 13.1 Euro. Ecosecurities criticizes validators for having waiting periods of 1 year (see "Treaty hot air chills the carbon traders", Sunday Times, April 27, business.timesonline.co.uk/tol/business/industry\_sectors/banking\_and\_finance/article3821715.ece) .
- In India, a private equity fund managed by the bank IDFC has invested 7 million Euro to finance expansion of the CDM project developer Emergent Ventures India
- The largest hydropower plant in the world might get a push by the CDM. The World Energy Council (WEC) convened a meeting to discuss the Inga dam project on the Congo river, which with 40 GW would be twice as large as today's record holder. Inga would generate over 200 million CERs per year, but is unlikely to be completed before 2025. As Inga's costs including long-distance transmission lines are estimated at 50 billion Euro, the share of CDM financing would still be small. Documents available on the WEC website raise doubts about the project's additionality (see [http://www.worldenergy.org/documents/annex\\_3\\_\\_information\\_on\\_inga\\_projects.pdf](http://www.worldenergy.org/documents/annex_3__information_on_inga_projects.pdf) )

## Incentives for CDM investment

- The Norwegian CER acquisition programme "Carbon Neutral Norway" (see [www.carbonneutralnorway.no](http://www.carbonneutralnorway.no)) is looking for CDM projects, with the aim to negotiate ERPA's within two months. A focus is on projects at an early stage and on countries with no or only few registered projects. Payment is on delivery. Post-2012 CERs are also bought. Funding for PIN and PDD development is available.
- Japan now plans to buy 100 million CERs, ERUs and AAUs during the commitment period. Government agency NEDO announced that it bought 16.7 million CERs in 2007/8, after 6.4 million in 2006/7
- Greece has been denied eligibility for international emissions trading by the UNFCCC due to an insufficient registry system.
- The Australian Garnaut review paper on emissions trading in Australia notes "legitimate reservations about the CDM" and recommends that direct links with the CDM should be limited, maybe only to CERs from countries with no reasonable prospects for taking on targets in the foreseeable future.
- Ukraine has decided not to set a floor price for ERUs, reversing an earlier decision
- The China Methane Recovery Fund, a fund investing in coal mine methane in China, operated by MAN Hedge Fund, has closed with a capital of 400 million Euro
- The Nordic Environmental Finance Corporation (NEFCO) Carbon Fund has 35 million Euro invested for projects in China and countries in transition

- India's National Commodity and Derivatives Exchange has unveiled a CER contract. The detailed description is available at [http://www.ncdex.com/upload/product\\_note/90%C2%A71%C2%A7CER\\_PN\\_07042008.pdf](http://www.ncdex.com/upload/product_note/90%C2%A71%C2%A7CER_PN_07042008.pdf) Trade volume reached more than 30 million Euros for 1.7 million CERs in the first two weeks of trading.
- In the context of post-2012 climate negotiations,
  - In a paper called "Key elements of a global deal on climate change", Nicholas Stern calls for benchmarks as the solution of the CDM's current woes (<http://www.lse.ac.uk/collections/climateNetwork/publications/Key%20Elements%20of%20a%20Global%20Deal%20-Final%20version%201300%2030-4.pdf>). The project-based CDM could not mobilize more than 6 billion \$ per year while a tenfold volume would have to be mobilized. "Moving from a project-based to a wholesale mechanism, perhaps based on sector-specific efficiency targets and credible sector decarbonisation plans, would permit scaling-up in a number of emissions and energy intensive industries. Standardised benchmarks would help to reduce the risk of emissions diversion and relocation, and to alleviate competitiveness concerns in internationally traded sectors":

### Web news and downloads of the month

- Wall Street Journal has featured the current problems of CDM project developers in three stories, two of which appeared on the cover page: "U.N. Effort To Curtail Emissions In Turmoil", April 11, [http://online.wsj.com/article/SB120796372237309757.html?mod=googlenews\\_wsj](http://online.wsj.com/article/SB120796372237309757.html?mod=googlenews_wsj) and "Up in smoke. Two Carbon-Market Millionaires Take a Hit as U.N. Clamps Down", April 14, [http://online.wsj.com/article/SB120813542203111705.html?mod=googlenews\\_wsj](http://online.wsj.com/article/SB120813542203111705.html?mod=googlenews_wsj). In the latter article, EcoSecurities' Marc Stuart frankly states that "the first couple of years, this business was a land grab" and goes on about EcoSecurities approach to business: "In some ways it's akin to sub-prime. You keep layering on c- until you say, 'We can't do this anymore.'". The third article "Some Carbon-Credit Projects Find a Tougher Road to Approval", April 22, [http://online.wsj.com/article/SB120882900634733527.html?mod=googlenews\\_wsj](http://online.wsj.com/article/SB120882900634733527.html?mod=googlenews_wsj), discusses the additionality of bagasse cogeneration.
- A series of very interesting presentations on validating compliance with the World Commission on Dams guidelines for large hydro projects can be downloaded at [http://www.dehst.de/clin\\_011/nn\\_476208/DE/JI\\_\\_CDM/aktuelle\\_\\_Textbausteine/WCD\\_20Workshop.html?\\_\\_nnn=true](http://www.dehst.de/clin_011/nn_476208/DE/JI__CDM/aktuelle__Textbausteine/WCD_20Workshop.html?__nnn=true) (scroll down the German language page to find the English language presentation links)
- Stanford University researchers Michael Wara and David Victor criticize the CDM in their paper "A Realistic Policy on International Carbon Offsets", download: [http://iis-db.stanford.edu/pubs/22157/WP74\\_final\\_final.pdf](http://iis-db.stanford.edu/pubs/22157/WP74_final_final.pdf)
- Washington's Institute for Policy Studies has published a paper which criticizes the role of the World Bank in international carbon markets, taking up some well-known NGO arguments but also unearthing interesting early sources: Janet Redman: World Bank: Climate Profiteer. Download at <http://www.ips-dc.org/getfile.php?id=181>
- World Watch Institute's Zoë Chafe and Hilary French give an easy-to-understand overview of carbon markets in their chapter "Improving Carbon Markets" at [http://www.worldwatch.org/files/pdf/SOW08\\_chapter\\_7.pdf](http://www.worldwatch.org/files/pdf/SOW08_chapter_7.pdf)
- Winrock has published a report "Carbon market opportunities for the forestry sector of Africa". Unfortunately it has 16 Megabytes, so might be difficult to download: [http://www.winrock.org/ecosystems/files/Winrock\\_FAO\\_Carbon\\_opportunities\\_in\\_Africa.pdf](http://www.winrock.org/ecosystems/files/Winrock_FAO_Carbon_opportunities_in_Africa.pdf)
- Presentations from an IETA workshop at the European Parliament in Strasbourg on access to international offsets in the EU ETS review are available at <http://www.ieta.org/ieta/www/pages/getfile.php?docID=2947> (caution, 7.7 MB file). They give the arguments of the EU Commission to reduce CER imports after 2012.
- JBIC and Nikkei are publishing an index for issued CERs, denominated in Yen at [http://www.joi.or.jp/carbon/h\\_index.html](http://www.joi.or.jp/carbon/h_index.html)
- An article on CDM development in South Africa is available at <http://www.ecosecurities.com/Assets/11572/pubs%20-%20accelerating%20the%20implementation%20of%20the%20cdm%20in%20south%20africa.pdf>
- By the end of April, 135 buyers (+5) from 27 countries (+0), 152 (+9) sellers from 40 countries (+2) and 360 service providers (+12) from 52 countries (+0) had listings on CDM Bazaar. India leads the list of service providers with 76 entries, followed by China with 38, UK and US with 35 and Brazil with 20. 31 projects (+3) have been posted by sellers.

## Other news

- From May 7-9, Carbon Expo is held in Cologne. With 240 exhibitors, it is the largest carbon market fair.

## Country of the month: Switzerland

Quietly, Switzerland is becoming the world's carbon trading hub, as the EU has been unable to link its registries to the international transaction log (ITL). It allows companies from all over the world to open a registry account (see [http://www.bafu.admin.ch/emissionshandel/05564/index.html?lang=en#sprungmarke3\\_7](http://www.bafu.admin.ch/emissionshandel/05564/index.html?lang=en#sprungmarke3_7)) and <https://www.national-registry.ch/?LANGUE=en>) and get DNA approval. Since the link of the Swiss registry to the ITL in December 2007, more than 80 companies have opened accounts and traded with companies in Japan and New Zealand. Opening an account just costs 280 Swiss Franks and the annual fee is set at 140 Franks. While the Swiss government is not buying CERs / ERUs, the innovative public-private partnership Swiss Climate Cent Foundation (<http://www.klimarappen.ch/klimarappen/frame.asp?l=4>) has the target to acquire 10 million CERs/ERUs, excluding HFC-23, coal mine methane and forestry projects. It is financed through a voluntary charge of 0,015 Franks per litre of transport fuel sold in Switzerland. So far, nine ERPAs have been signed not including contracts with brokers and traders; 7.3 million CERs/ERUs have been contracted. Zurich has become a hub of high-quality carbon market service providers, with First Climate, INFRAS, Perspectives and South Pole having offices there. Trader Vitol is located in Geneva; they have just acquired 25% of Carbon Resources Management of the UK. The validator and verifier SGS has its headquarters in Lausanne.

## Number of the month

The 1000<sup>th</sup> CDM project was registered on April 13

## CDM counter (as of May 1, 2008)

- Pending large-scale baseline methodologies: 28
  - of which forestry: 1
- Pending small-scale baseline methodologies: 10
- Approved and published large-scale baseline methodologies: 74 (including 14 consolidated ones)
  - of which forestry: 10 (including 1 consolidated one)
- Approved and published small-scale baseline methodologies: 33
- Notified DNAs: 128 (102 host countries, 26 buyer countries)
- Companies applying to become operational entity: 25
- Accredited operational entities: 18
  - Of which 7 for verification
- Projects currently open for public comments on PDD: 183
  - Of which 0 are PoAs
- Projects that are undergoing and have undergone the public comment period: 2372
  - Of which 76 have officially applied for registration
  - for 45 of which a request for review has been launched
  - Of which 42 have to make corrections
  - Of which 6 are undergoing review
  - Of which 63 have been rejected
  - Of which 15 have officially been withdrawn
  - Of which 342 have been submitted for public comments more than once
  - Of which 2 are PoAs

- Expected CERs until 2012 from those projects: 1333 million
    - Of which 62.3 million from those that officially applied for registration
    - Of which 39.8 million from projects with request for review and corrections requested
    - Of which 1.0 million from those undergoing review
    - Of which 45.4 million from rejected ones
    - Of which 5.0 million from withdrawn ones
  - Registered projects: 1033
    - expecting 1288 million CERs by 2012
    - Of which 0 are PoAs
    - Host countries: 50
    - Buyer countries: 20
  - Issued CERs: 139.4 million
    - Projects with issued CERs: 335
  - CER price: 1.5-5 Euro for post-2012 vintages, 8-10 Euro for medium-risk forwards, 10-13 Euro for low-risk forwards, 10-14 Euro for registered projects, 14-16 Euro for issued CERs, 16.1 Euro Dec. 2008 future price on Nord Pool exchange
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## **Imprint**

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