

## CDM Highlights 61

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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!

In late June, secondary CER prices reached an all-time high. This was driven by increasing recognition that issued CERs are a scarce commodity, especially after the rejection of a hydro project in China by a validator. Risk assessment of CDM project portfolios and single projects thus becomes a hot business, exemplified by Idea Carbon's setup of a rating system for projects.

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### UNFCCC, EB and its panels

- The UNFCCC Secretariat has suggested that the common practice test shall be abolished for renewable energy projects
- The EB made the following decisions at its 40<sup>th</sup> meeting on June 11-13:
  - Validators have to report to the EB about the validation status once 6 months have elapsed from the start of the public comment period and the project is not submitted for registration. It is unclear whether these data will be published.
  - Out of 20 projects under review, 2 were registered, 15 have to make corrections and 3 were rejected due to missing "serious consideration" of CDM.
  - Out of 4 projects submitted with corrections after request for review, one was registered and 4 were put under review.
  - Out of 3 projects submitted with corrections after a review, 2 were registered and one rejected – due to inappropriateness of the benchmark (see below)
  - Out of 23 review requests, one project was registered, 9 projects have to make corrections and 13 projects are put under review. All reviews relate to lacking additionality.
  - Validator TÜV Süd rejected validation of a Chinese hydro project after it became clear during a request for review that the project developer had pushed back the project start date as well as adjusted the investment calculations. This is the first example of a project being rejected on grounds of non-compliance with CDM rules at an advanced stage of development.
  - The commonly applied 16% benchmark for renewable power projects in India has been explicitly rejected by the EB as inappropriate. This will lead to serious problems for many projects that have built their additionality argument around this benchmark.
  - Regarding 5 review requests for issuance, 1 project received the requested quantity, 3 issuance requests have to make corrections and 1 was put under review.
  - Out of 5 reviews for issuance, one issuance was granted, 2 have to make corrections and a methane destruction animal waste project in Indonesia had its request for issuance rejected because it did not weigh all its swine as required in the monitoring methodology.
- The Meth Panel met on June 23-25, making the following recommendations:
  - Approval of a methodology on biogas use for gas grids as well as revised versions of the refrigerator methodologies
  - Rejection of 9 methodologies (inter alia dairy animal methane, CO<sub>2</sub> capture from urea, grid connections)
  - For highly profitable greenfield industrial plants using solid or liquid waste (including biomass residues), waste gas, waste heat, etc. as new feedstock for producing either a product, heat or electric power, the barrier test is to be strengthened. Acceptable barriers are being first-of-its-kind in the relevant region or country, proof that one barrier cannot be directly alleviated or otherwise affected by the potentially higher financial revenues of the project but will be alleviated by the CDM, and credible independent evidence that bank loans, other debt or equity financing could only be obtained after the benefits of the CDM were taken into account.

## Designated Operational Entities

- SGS will not validate projects in India which have commenced operations prior to 2006, in a reaction to the increased rejections due to lack of “serious consideration”

## Designated National Authorities

- Belarus has notified its DNA
  - The DNA host country approval hitlist stands at
    - China: 1337 projects (+42). The new approvals include 18 hydro and wind, 3 waste heat recovery, and 1 biomass power plants, CMM, and nitric acid project each. Total annual CER volume is estimated at 5.5 million per year, with 0.9 million coming from the CMM project. The emissions factors for the supercritical power plant methodology ACM 13 has been published at <http://cdm.ccchina.gov.cn/WebSite/CDM/UpFile/File1829.pdf>, albeit only in Chinese; they range from 855 to 875 g CO<sub>2</sub>/kWh depending on the grid. The rules of the Hongkong DNA are available at <http://cdm.ccchina.gov.cn/WebSite/CDM/UpFile/File1826.pdf>; projects in Hongkong do not have to pay CER taxes.
    - India: 969 projects
    - Mexico: 189 projects (+0).
    - Brazil: 184 projects (+4). The resolution regarding the grid emissions factor is available at [http://www.mct.gov.br/upd\\_blob/0024/24833.pdf](http://www.mct.gov.br/upd_blob/0024/24833.pdf)
    - Philippines: 55 projects (+0). The DNA website is currently down
    - Indonesia: 51 projects (+0). The DNA website is currently down
    - Colombia: 28 projects (+5). The new projects include one hydro, landfill gas, waste water, fuel switch and reforestation project, with a total of 0.25 million CERs p.a.
    - Peru: 24 projects, of which 16 hydro (1.7 million CER p.a.), 4 biopower (0.2 million CERs) and 2 waste (0.4 million) and fuel switch (0.3 million) each.
    - Israel: 22 projects (+0).
    - Argentina: 19 projects. The Argentinean grid emissions factor is provided by the DNA at [http://www.ambiente.gov.ar/archivos/web/UCC/File/220807\\_calculo\\_factor\\_emision.pdf](http://www.ambiente.gov.ar/archivos/web/UCC/File/220807_calculo_factor_emision.pdf)
    - South Africa: 18 projects (+0).
    - The Chilean DNA has denied the accusations made by project developers and has countered that the three projects pending DNA approval in Chile had not submitted all of the necessary paperwork regarding sectoral and environmental approvals in time for DNA consideration
  - The DNA investor country approval hitlist stands at
    - UK: 737 projects (+0. Annual CER volume is estimated at 201 million)
    - Japan: 310 projects (+7). Annual CER volume is estimated at 113 million (+ 1.2 million)
    - Sweden: 124 projects (+0).
    - Germany: 77 projects (+0)
    - Spain: 72 projects (+0).
- Please note that large projects may be approved by more than one investor country!

## Project developers

- 150 projects have been submitted. Large new projects in the pipeline are
  - HFC-23 reduction (Mexico, 5.4 million CERs by 2012)
  - Two gas power plants (China, 5.1 and 3.9 million CERs)
  - Hydro plant 230 MW (China, 3.6 million CERs)
- According to an agreement concluded with the Chinese National Development and Reform Commission, CDM consultant Mitsubishi UFJ will train provincial and local officials in CDM matters

## Incentives for CDM investment

- The price difference between issued CERs and EU allowances has declined to about 6 Euros. Secondary CERs reached a record price of 20.9 Euros on June 30. This is due to announcements by the EU that the link between the ITL and the CITL will be done before Dec. 1, 2008
- The EU Parliament is preparing its position on the EU Commission proposals for EU ETS and linking after 2012. Irish MEP Doyle, the Europeans Parlements rapporteur, is proposing that companies should voluntarily limit imports before 2013 to 0.7 billion CERs and ERUs. They could import

the rest in 2013-2020 and would then get an extra import licence of 0.3 billion during that period. Moreover, Doyle has proposed to limit CER imports to projects of "Gold Standard type".

The report draft is available at <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+COMPARL+PE-407.778+01+DOC+PDF+V0//EN&language=EN>

She stated publicly that CCS projects would be automatically additional and should be allowed in the CDM.

The environmental committee will vote on the report on Oct. 7 and the European Parliament plenary on Dec. 16. Interestingly, the latter date is after completion of COP 14 in Poznan.

- The first Chinese emissions credit exchange has stalled due to misgivings of Chinese actors regarding a 25% stake of the Chicago Climate Exchange.
- Bhutan has announced a policy for development of over 10 GW of hydro plants. All CERs shall accrue to the investors but be subject to income tax.
- ADB is giving a 30 million \$ loan for distribution of CFLs, whose payment is to be done through CERs.
- The Gold Standard foundation has made a deal with insurer Carbon Re which grants Gold Standard project developers insurance at special conditions
- In the context of the post-2012 climate negotiations at the SB meetings in Bonn,
  - Korea proposed policy CDM, using the term "nationally appropriate mitigation action"
  - the EU argued for more differentiation among host countries, while G77 argued that this would require amendment of Art. 12.
  - Canada argued for removing of financial additionality even before 2012
  - Japanese research institute IGES argued for removal of the additionality test for wind power, geothermal, photovoltaic and solar thermal projects

#### Web news and downloads of the month

- CDM information provider Idea Carbon has launched a project rating service company "Carbon Ratings Agency". A sample rating and evaluation of CDM performance to date can be downloaded from [www.carbonratingsagency.com](http://www.carbonratingsagency.com) after registration.
- The Dutch Ministry of Foreign Affairs has published an evaluation of Dutch government-supported CDM projects in "Clean and sustainable? An evaluation of the contribution of the Clean Development Mechanism to sustainable development in host countries", download at <http://www.minbuza.nl/binaries/kamerbrieven-bijlagen/2008/mei/115dmw-bijlage-iob.pdf>.
- The BBC has followed up on CDM bashing, somehow extracting the statement from a HFC-23 reduction project developer in India that his project was business-as-usual. For the "Great carbon bazaar" see <http://news.bbc.co.uk/go/em/fr/-/2/hi/business/7436263.stm>.
- CDM Bazaar is back after being down for more than one month. By the end of June, 143 buyers (+8) from 28 countries (+1), 166 (+14) sellers from 41 countries (+1) and 382 service providers (+22) from 52 countries (+0) had listings on CDM Bazaar. India leads the list of service providers with 85 entries, followed by China with 42, UK with 37, US with 35 and Brazil with 21. 26 projects (-5) have been posted by sellers.

#### Other news

- Turkey has ratified the Kyoto Protocol
- The Adaptation Fund requested the World Bank to sell the CERs accrued under the CDM registry.
- Danish consultancy NIRAS looks for information on PoAs for a study on PoAs and microfinance mechanisms. The study is coordinated by former EB chair Hans-Jürgen Stehr. Information, which will be treated confidential, should be sent to [hhj@niras.dk](mailto:hhj@niras.dk).
- The University of East Anglia, UK, provides several 3 year scholarships for PhD students working on the CDM in India and South Africa. Application forms are available at <http://www1.uea.ac.uk/cm/home/schools/ssf/dev/researchpg/HowToApply> and should be submitted to [d.lightening@uea.ac.uk](mailto:d.lightening@uea.ac.uk) quoting ESRC/Newell by August 15.

#### Country of the month: Peru

Peru has been able to find its place among the CDM countries renowned for an effective institutional framework and a broad project portfolio. CONAM, the national environmental authority, serves as DNA. CONAM has developed and implemented the ISO P-34 procedure for a rapid assessment of

CDM projects. Within 45 days the project proponents obtain a declaration stating the approval or disapproval of the activity of the proposed project activity.

FONAM, the National Environmental Fund, serves as the official CDM promotion office, working directly with the private and public sector, offering advice in the development of the projects. It is also the Focal Point of the World Bank's Carbon Finance in Peru and has contributed to develop the capacities of the national financial system. A list of 104 projects (83 energy, 21 forestry) is available at <http://www.fonamperu.org/general/mdl/portafolio.php>. A list of CDM consultants on the Peruvian market is available at [www.fonamperu.org/general/mdl/actores2.php](http://www.fonamperu.org/general/mdl/actores2.php). Two hydro projects have CERs issued; 10 further projects have been registered (6 hydro, 2 LFG and one waste water and fuel switch each), with a total of 5.3 million CERs by 2013. 12 projects in validation (among which 7 hydro), estimate 8 million CERs. One project has been withdrawn.

### **Number of the month**

20.9 Euro: secondary CER price at the end of June.

### **CDM counter (as of July 1, 2008)**

- Pending large-scale baseline methodologies: 39
  - of which forestry: 0
- Pending small-scale baseline methodologies: 8
- Approved and published large-scale baseline methodologies: 76 (including 15 consolidated ones)
  - of which forestry: 10 (including 1 consolidated one)
- Approved and published small-scale baseline methodologies: 35
- Notified DNAs: 132 (105 host countries, 27 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: 150
  - Of which 0 are PoAs
- Projects that are undergoing and have undergone the public comment period: 2502
  - Of which 74 have officially applied for registration
  - for 25 of which a request for review has been launched
  - Of which 49 have to make corrections
  - Of which 16 are undergoing review
  - Of which 70 have been rejected
  - Of which 15 have officially been withdrawn
  - Of which 2 are PoAs
- Expected CERs until 2012 from those projects: 1412 million
  - Of which 39.9 million from those that officially applied for registration
  - Of which 62.8 million from projects with request for review and corrections requested
  - Of which 9.7 million from those undergoing review
  - Of which 46.1 million from rejected ones
  - Of which 5.0 million from withdrawn ones
- Registered projects: 1109
  - expecting 1328 million CERs by 2012
  - Of which 0 are PoAs
  - Host countries: 50
  - Buyer countries: 20

- Issued CERs: 163.0 million
    - Projects with issued CERs: 368
  - CER price: 3-7 Euro for post-2012 vintages, 8-12 Euro for medium-risk forwards, 12-15 Euro for low-risk forwards, 13-18 Euro for registered projects, 16-22 Euro for issued CERs, 20.9 Euro Dec. 2008 future price on Nord Pool exchange
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## Imprint

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