

## CDM Highlights 62

August 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 CDM EB seems to have a tendency to postpone serious decisions.. One exception is the first “deemed savings” methodology for energy efficient lighting, which simplifies sampling. Such projects are becoming more and more attractive. Another interesting rule is the requirement to notify the CDM interest maximally 6 months after a CDM project has started.

Anja Wucke, GTZ and Axel Michaelowa, Perspectives

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### UNFCCC, EB and its panels

- The EB made the following decisions at its 41<sup>st</sup> meeting on July 30-August 2:
  - Re-accreditation of DOEs will only be granted if the required witnessing is done within one year from issuance of an indicative letter confirming re-accreditation
  - The biogas methodology recommended by the Meth Panel was approved. The refrigerator methodology was sent back to the Meth Panel for a second revision, quoting problems regarding demonstration that a technological innovation in a manufacturing facility is introduced due to the CDM, double counting and conflicts between supply-side and demand side projects.
  - Tools on determination of dead organic matter and identification of degraded land were approved
  - A new small-scale methodology II.J for projects in energy efficient lighting has been introduced. It is much more elaborate than the classical small-scale methodologies and for the first time applies elements of a “deemed savings approach” (see issue 59 and preceding issues). While the SSC WG had proposed to apply 3 hours as daily default maximum use and a discount of 15% for free riding, the EB increased the daily use to 3.5 hours and reduced the discount to 5%.
  - Energy efficiency methodology II.C was strengthened to include a baseline penetration factor and to calculate leakages due to lack of heat radiation from efficient equipment in cold climates.
  - The duration of an initial completeness check for registration is to be limited to 30 working days (i.e. 1.5 months) from receipt of the fee, but only if less than 50 requests of registrations are submitted every month. For resubmissions, a maximum of 5 days is permitted. Recently, completeness check duration had averaged more than 2 months.
  - Corrections are to be assessed within three weeks
  - A more detailed definition of “start date” has been given, as the date on which the project participant has committed to expenditures related to the implementation or related to the construction of the project. If a project claims to have been stopped and only been resuscitated by the CDM, “cessation of project implementation must be demonstrated by means of credible evidence such as cancellation of contracts or revocation of government permits”.
  - Out of 17 projects under review, all have to make corrections
  - Out of 2 projects submitted with corrections after a review, both projects are undergoing a second review (!) This is a new loop and shows the fear of legal cases.
  - Out of 29 review requests, one project was registered, 6 projects have to make corrections and 22 projects are put under review. All reviews relate to lacking additionality, many with regards to benchmarks or serious consideration.
  - The duration of an initial completeness check for issuance requests is to be limited to 20 working days (i.e. 1 month) from receipt of the fee, but only if less than 40 requests of issuance are submitted every month. For resubmissions, a maximum of 5 days is permitted.
  - Regarding 18 review requests for issuance, 1 project received the requested quantity, 11 issuance requests have to make corrections and 6 were put under review.

- The review for issuance led to issuance of 98% of requested CERs despite non-conformity of meter calibration with the monitoring plan.
- Project developers have to notify a DNA or the UNFCCC about their CDM plans within 6 months after the project started, otherwise the project cannot be submitted as a CDM at a later point in time. This shall solve the “serious consideration” conundrum.
- The EB was unable to decide on the following issues and relegated them to the next meeting:
  - the Validation and Verification Manual
  - the draft accreditation standards, that were sent back to the Accreditation Panel
  - the proposed barrier test, for which public comments have been invited and an assessment by the Secretariat is to be done
  - the proposed guidance to exempt renewable energy projects from the common practice test
  - the proposal on definition of project boundaries for forestry projects, which was seen as overly strict
- Public comments on the problems facing programmatic CDM are invited until Sept. 3
- The EB noted “serious concerns on the unilateral action taken by five DOEs” regarding a one year cutoff for projects languishing in the validation pipeline, seeing it as an attempt to propose rules.

### **Designated Operational Entities**

- JQA has been accredited for validation of agricultural projects, BVC and JACO for forestry projects and JCI for manufacturing industry, chemical industry and fugitive emissions. SGS can now verify forestry projects

### **Designated National Authorities**

- The Malaysian electricity grid baseline emissions factors have been published at <http://cdm.eib.org.my/upload/articles1016,article,1204621745,CDMBaseline2005.pdf>
  - The DNA host country approval hitlist stands at
    - China: 1388 projects (+51). The new approvals include 34 hydro, 5 waste heat recovery, 3 wind, 2 coal mine methane and 1 biomass power, gas power plants, cement blending, landfill gas and household energy efficiency project each. Total annual CER volume is estimated at 8.4 million per year, with 1.2 million coming from the gas power plant.
    - India: 969 projects. The Indian minister of science lashed out against the CDM, criticizing the lack of technology transfer and calling the project cycle a “total farce”.
    - Mexico: 189 projects (+0).
    - Brazil: 185 projects (+1). A PFC reduction in the aluminium sector has been added. So far, 15 projects have not received final approval
    - Indonesia: 63 projects (+12), of which 4 wastewater, two composting and one biopower, waste heat recovery, fuel switch, hydro, efficiency in power generation and PFC reduction in aluminium. Annual CER volume of the newly approved projects is estimated at 0.7 million
    - Philippines: 55 projects (+0). The DNA website is still down
    - Colombia: 28 projects (+0).
    - Peru: 24 projects (+0)
    - Israel: 22 projects (+0).
    - Argentina: 19 projects (+0)
    - South Africa: 19 projects (+1).
  - The DNA investor country approval hitlist suffers from the summer lull and stands at
    - UK: 737 projects (+0)
    - Japan: 316 projects (+6). Annual CER volume is estimated at 114 million (+ 1.0 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**

- 116 projects have been submitted. Large new projects in the pipeline are
  - Cement blending (Nigeria, 5.6 million CERs by 2012)

- Ecoscurities had to buy 2.9 million CERs on the open market to honour sales contracts, due to continued underdelivery of its projects
- Developers of landfill gas and coal mine methane projects in China fear that a recently promulgated regulation of the State Environmental Protection Agency to capture and utilize methane might lead to problems in getting CDM registration
- A software dubbed “Carbonflow” which tries to automate completion of steps in the CDM project cycle is being developed by two US and one New Zealand companies, with the assistance of DNV.
- Many project developers plan distribution of compact fluorescent lamps (CFLs), sometimes with very optimistic distribution targets and timetables:
  - Mexican organization Cool NRG Carbon investments plans a country-wide programme approved recently by the Mexican DNA, aiming to generate 0.8 million CERs per year
  - CFL producer Philips has teamed up with Goldman Sachs to distribute 2.6 million CFLs to households of Indian railway employees. No Indian CFL manufacturer was willing to bid for this project as the Indian Railways are not willing to provide any finance.
  - The government of Uttar Pradesh has decreed that all government buildings only use CFLs; it expects the broker Cantor CO2e.com to get CDM registration within 6 months

### Incentives for CDM investment

- The decline in oil prices has led to a pressure on EU allowance prices that has also weighed on CER prices that dropped to 17.3 Euro on July 31.
- After the acceptance of the directive on inclusion of airlines in the EU emissions trading scheme by the European Parliament, CER demand could materialize from 2012, when the sector’s inclusion starts. Allocation is based on a 3% reduction from 2004-2006 levels.
- Austria has increased its budget for CER and ERU acquisition by 132 million Euro.
- Steel giant Arcelor Mittal has budgeted 100 million Euro for CER/ERU acquisition
- The rise in CER prices has led to a reduction of the premium paid for Gold Standard CERs
- In the context of the post-2012 climate negotiations,
  - The German Parliament agreed on CDM reform recommendation, spurred by a left party proposal to stop CDM until its shortcomings had been remediated.

### Web news and downloads of the month

- WWF Hong Kong has published a report “The Value of Carbon in China” focusing on CDM in renewable energy, download at [http://wwf.org.hk/eng/pdf/references/pressreleases\\_hongkong/WWFcarbon\\_report\\_FINAL\\_20080630\\_ENG.pdf](http://wwf.org.hk/eng/pdf/references/pressreleases_hongkong/WWFcarbon_report_FINAL_20080630_ENG.pdf). The surprisingly tame report sees “some question marks over the additionality of a number of CDM projects, especially in the wind and small hydro sectors” and stresses that “the size of the market in terms of CER revenue is relatively minute (approx. 5%) compared with investment in new power plants, energy infrastructure and fuel imports”.
- The Indian state of Himachal Pradesh has developed a CDM strategy that can be downloaded at: <http://www.himvani.com/news/wp-content/uploads/2008/07/CDM.pdf>. The strategy focuses on forestry.
- In its annual report “Bad deal for the planet” the NGO International Rivers Network “criticizes hydropower CDM, download at [http://www.internationalrivers.org/files/DRP2English2008-521\\_0.pdf](http://www.internationalrivers.org/files/DRP2English2008-521_0.pdf).
- The Wall Street Journal continues its CDM bashing with two articles criticizing greenfield gas and coal power plants (“Fund Designed to Spur Renewable Energy Subsidizes Gas Plants” July 11, download at: <http://www.globalpolicy.org/socecon/envronmt/general/2008/0711ball.htm>) and N<sub>2</sub>O reduction from adipic acid plants (“French Firm Cashes In Under U.N. Warming Program”, July 23, download at <http://www.climateark.org/shared/reader/welcome.aspx?linkid=103570>)
- The World Bank’s post-2012 Carbon Partnership Facility design documents are available at <http://carbonfinance.org/Router.cfm?Page=CPF&FID=41756&ItemID=41756&ft=DocLib&ht=47&dtype=25617&dl=0>
- Lia Sieghart describes challenges for implementation of the CDM in the Middle East and North Africa, download at <http://www.cdm-yemen.org/uploads/Towards%20an%20Effective%20Implementation%20of%20the%20Clean%20Development%20Mechanism%20in%20the%20-Middle%20East%20and%20North%20Africa%20Region.pdf>
- By the end of July, 151 buyers (+8) from 28 countries (+0), 184 (+18) sellers from 47 countries (+6) and 406 service providers (+24) from 53 countries (+1) had listings on CDM Bazaar. India leads the

list of service providers with 91 entries, followed by China with 43, UK and US with 37 and Brazil with 24. 28 projects (+2) have been posted by sellers.

### **GTZ CDM capacity development**

In collaboration with household appliance manufacturer “Bosch-Siemens Haushaltsgeräte”, GTZ has submitted a baseline methodology for energy-efficient refrigerator distribution and is advising Brazilian utility companies in the design of PoAs for Brazilian shantytowns. The methodology and the PoAs link the decommissioning of old, inefficient refrigerators for the recovery of CFCs with the energy savings in low-income households through the provision of new, efficient refrigerators. These utility companies only recently started to address demand-side management in general and in shantytowns in particular and have not integrated the CDM so far.

The German Ministry of Economic Development and Cooperation will be co-sponsoring the African Carbon Forum by financing the travel expenditures of selected African partners. Representatives from the German Technical Cooperation's Climate and Energy projects in Africa will participate, as well.

### **Other news**

- The GTZ has been commissioned in a 1, 4 mio EUR contract by the German Federal Ministry of Environment (BMU) to implement a part of the international components of the BMU CDM/JI-Initiative. The Initiative aims at assisting project identification, sourcing of CER and ERU and fostering of new and innovative approaches within the Kyoto mechanism as new methodologies and programme of activities. GTZ CDM-experts in China, India, Brazil and North Africa will support in particular German small and mediums sized companies through project identification and network building. The activities will be carried out with a clear outlook beyond 2012. Interested companies may find more information on the JIKO website [www.jiko-bmu.de/71](http://www.jiko-bmu.de/71), which will be available in English, soon.
- 14 countries (6 in Africa: Democratic Republic of Congo, Gabon, Ghana, Kenya, Liberia, Madagascar; 5 in Latin America (Bolivia, Costa Rica, Guyana, Mexico, Panama); and 3 in Asia (Nepal, Lao PDR, and Vietnam) have been selected by the World Bank to receive initial funding from the Forest Carbon Partnership Facility for reduction of deforestation. The World Bank has published a baseline methodology for deforestation at [http://carbonfinance.org/docs/REDD\\_Mosaic\\_Methodology.pdf](http://carbonfinance.org/docs/REDD_Mosaic_Methodology.pdf)
- The Africa Carbon Forum will be held from 3 - 5 September 2008 in Dakar, Senegal. Further details and a draft agenda can be downloaded from the IETA website: <http://www.ieta.org/ieta/www/pages/index.php?IdSitePage=1548>

### **Country of the month: United Arab Emirates**

The Middle East has been a latecomer in the global CDM market. Nevertheless, some of the more enterprising countries in the region are now getting involved. The clear frontrunner are the UAE that set up their DNA in September 2005 at the Environment Agency - Abu Dhabi (EAD); the first projects were approved in February 2008. Since 2007, CDM has taken off with the large Abu Dhabi-based company Masdar developing a series of bold CDM projects, mainly in the industrial sector. Masdar, which has a partnership with Shell, contemplates a large CCS programme and would like to submit its greenhouse neutral city near Abu Dhabi as a CDM project. Ecosecurities opened its Dubai office in June 2007 in collaboration with the Dubai Multi Commodities Centre. Their first large client is Nakheel, a huge real estate company which plans CDM energy efficiency projects in its building portfolio. In April 2007, Japan and the UAE agreed on a MoU regarding CDM projects. The CDM boom has also brought up some more unusual constellations, such as an Italian heading the United Nations Office for Project Services (UNOPS) in Dubai trying to embark on CDM consulting. The UAE project pipeline currently consists of 12 projects under validation with a total pre-2013 CER volume of 2.8 million. It includes the first concentrating solar power project in the whole CDM world.

## Number of the month

5%: Assumption about free riders in CFL projects.

### CDM counter (as of July 31, 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: 118
  - Of which 2 are PoAs
- Projects that are undergoing and have undergone the public comment period: 2659
  - Of which 72 have officially applied for registration
  - for 52 of which a request for review has been launched
  - Of which 37 have to make corrections
  - Of which 16 are undergoing review
  - Of which 70 have been rejected
  - Of which 434 have been submitted for public comments more than once
  - Of which 18 have officially been withdrawn
  - Of which 4 are PoAs
- Expected CERs until 2012 from those projects: 1438 million
  - Of which 39.5 million from those that officially applied for registration
  - Of which 70.9 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 5.3 million from withdrawn ones
- Registered projects: 1133
  - expecting 1323 million CERs by 2012
  - Of which 0 are PoAs
  - Host countries: 50
  - Buyer countries: 20
- Issued CERs: 173.6 million
  - Projects with issued CERs: 385
- CER price: 3-7 Euro for post-2012 vintages, 8-12 Euro for medium-risk forwards, 11-14 Euro for low-risk forwards, 13-16 Euro for registered projects, 17-18 Euro for issued CERs, 17.3 Euro Dec. 2008 future price on Nord Pool exchange

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## **Imprint**

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