

CDM Highlights 64

October 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!

Cold autumn winds chill the carbon markets. The financial crisis rages unabated and many banks active in the CDM market are heavily battered. EUA prices have retreated considerably but CERs were relatively stable. China lost its lustre of 100% successful registration with the rejection of two large waste heat recovery projects. The EB has clamped down heavily on project developers by reviewing a record number of projects but has been unable to provide the guiding plank for future improvement through approval of the Verification and Validation Manual. The unprecedented scrutiny adds to the regulatory overload.

Anja Wucke, GTZ and Axel Michaelowa, Perspectives

UNFCCC, EB and its panels

- The EB made the following decisions at its 42nd meeting on Sep. 24-26:
 - For the first time, applications for validator's accreditation were rejected:
 - The request for accreditation of a company for validation in the scope "manufacturing industry" was rejected
 - The accreditation of another company for validator status was rejected due to lacking financial stability
 - One of the companies lodged a formal appeal
 - Three out of 11 DOEs that have applied for re-accreditation after 3 years have been asked to improve their procedures
 - The tough line against DOEs shall be balanced by an active search for companies who might be willing to submit an application to become a DOE
 - Accreditation and re-accreditation shall in future only be based on one desk review and on-site assessment. Once a DOE has been accredited, the Accreditation Panel shall monitor performance on the basis of
 - Model projects to be developed by the Accreditation Panel ("dummies")
 - Real projects submitted by project developers through a public call
 - The EB has asked validators to provide options and/or concrete measures to address concerns on the submission of falsified information by project participants
 - The refrigerator methodologies have finally been approved, as the EB accepted the Meth Panels arguments that double counting could be excluded and the stringency of additionality testing was sufficient. This is a breakthrough for the concept of benchmarking as for the first time, a double benchmark is being used, one benchmark for the national market of domestically produced refrigerators and the other benchmark for the refrigerator factor, which is updated annually using an autonomous technology development factor. The more stringent one has to be used.
 - A methodology on geothermal space heating was approved that could be widely applicable in China. As proposed by the Meth Panel, four methodologies were rejected (greenfield gas power, solar water heaters, combined cooling and heating systems, substitution of road transport by shipping)
 - Out of five proposed methodology revisions, one was accepted (AM 58 can now include back-pressure cogeneration plants)
 - The coal mine methane methodology ACM 8 now allows use of flameless oxidation, which could lead to projects destroying low-concentration ventilated air methane.

- It is now formally prohibited to submit a request for clarification of a methodology with the aim to expand applicability conditions. In the future, expansion of applicability conditions requires a request for revision.
- To facilitate forestry projects, emissions from fertilizer application, removal of grass and transportation need not be covered in baseline and monitoring methodologies; all existing methodologies will be revised accordingly by Oct. 17.
- Three new small-scale methodologies were agreed for use of cable cars, decrease of coke consumption due to dust recycling in steel plants and methane destruction from non-hydrocarbon mining. All three are likely to have limited applicability.
- The small-scale wastewater methodologies were revised, making it likely that many projects will be submitted before the expiry of the old versions in May 2009
- Out of 23 projects under review, 5 were rejected due to lack of additionality – 3 large (2.9 million CERs before 2013) waste heat recovery projects from China, one bagasse cogeneration plant in Brazil and one small hydro plant in India. 18 have to make corrections, all of which relate to the additionality test (suitability of the benchmark, justification of non-inflation adjusted data).
- The single project submitted with corrections after a review, a very large Korean waste heat recovery project (2.7 million CERs before 2013), was rejected due to lack of serious consideration of the CDM.
- Out of 66 review requests, a new record, one project was registered, 25 projects have to make corrections and 40 projects are put under review – also a new record. Corrections mostly relate to the consistency of PDDs with feasibility studies in the context of Chinese projects. 34 reviews relate to lacking additionality, many with regards to benchmarks or barrier analysis.
- Regarding 30 review requests for issuance (a new record), 19 issuance requests have to make corrections and 11 were put under review. Reviews relate mostly to monitoring problems of landfill gas projects.
- The 5 reviews for issuance led to 2 rejections (biogas projects in Nepal, 142,000 CERs lost due to impossibility to show that the claimed emission reductions result solely from the project) and to issuance of 99.9% of all requested CERs for the other 3 projects.
- The single issuance request submitted with corrections after a review for 17,800 CERs from a landfill project in Egypt was rejected due to lack of statistically valid sampling.
- The EB relegated the following issues to the next meeting :
 - Revision of rules for Programmes of Activity (PoAs). 36 public comments have been submitted most of which focus on the prohibitive nature of liability of validators, the limitation to one methodology and the need for continuous revalidation of PoAs in case methodologies are revised
 - Validation and Verification Manual. In two meetings they have gone through 28 out of 46 pages
 - Draft accreditation standards for which now public comments are invited
 - Definition of a “first of its kind” barrier. The Meth Panel had proposed to limit this barrier to cases where neither a commercial application of the technology exists nor a PDD using that technology has been published for validation. The technology would be defined by the approved baseline methodologies.
 - Definition of project boundaries for forestry projects
- The CDM registry will not transfer CERs for 10 days starting from Oct 7 as tests are performed to enable linking of the ITL with the EU registry. Moreover, all international transactions will be blocked for this period.
- The UNFCCC Secretariat got registration requests for 300 projects in early August due to the expiry of methodology ACM 2. This huge load clogs the system and leads to continued long periods for completeness checks

Baseline methodologies

- Nine new methodologies have been submitted. The most interesting cases are new capacity of nitric acid plants and charcoal utilization for pig iron production. The latter is a project type that drew the ire of NGOs even before the CDM started. The other methodologies address gas flaring reduction, high-density urban planning, landfill excavation, coal-gas and oil-biomass switch, zero-energy water purification
- Five new small-scale methodologies have been submitted since the last discussion of new submissions in the Highlights: Two each address fuel switch and HFC-reduction in refrigeration equipment, one relates to distribution of energy-efficient refrigerators

Designated Operational Entities

- 12 applicants for DOE status have not been able to get a project to implement the witnessing which is required for an accreditation
- The two Chinese applicants for DOE status have got the indicative letter stating that they have fulfilled the requirements. Getting a project for witnessing should not be a problem for them, so an alleviation of the shortage of Chinese validation services can be expected soon. Likewise, the Korean Standards Organization received the letter.

Designated National Authorities

- North Korea and Lesotho have notified their DNAs
- The DNA host country approval hitlist stands at
 - China: 1539 projects (+96). The new approvals include 32 hydro, 24 wind, 22 waste heat recovery, 3 Coal Mine Methane (CMM) and biomass power projects each, 2 forestry, waste incineration, cement blending and wastewater projects each, 1 landfill gas, household energy efficiency, gas power and ultra-supercritical coal power plant. Total annual CER volume is estimated at 15.5 million per year, with 1.1 million coming from a 480 MW hydro plant under construction in Sichuan province and 1 million from a CMM project.
 - India: 1069 projects (+56). The Indian DNA changed its forest definition levels to values as low as possible to allow more forest projects.
 - Brazil: 190 projects (+1)
 - Mexico: 189 projects (+0).
 - Indonesia: 70 projects (+7). Annual CER volumes are 6.6 million (+0.4 million)
 - Philippines: 55 projects (+0).
 - Vietnam: 44 projects (+0).
 - Thailand: 38 projects (+0).
 - Colombia: 30 projects (+0).
 - Peru: 24 projects (+0)
 - Israel, Argentina and South Africa: 19 projects (+0).
- The DNA investor country approval hitlist stands at
 - UK: 816 projects (+0).
 - Japan: 359 projects (+25). Annual CER volume is estimated at 119million (+ 2.7 million)
 - Sweden: 124 projects (+0).
 - Germany: 93 projects (+0). The fees for German approvals have been reduced considerably; these fees are valid retroactively for all projects submitted after August 11, 2008. For projects in LDCs, the fee is capped at 50 Euro.
 - Spain: 75 projects (+3). Total CER volume by 2012 is estimated at 117 million (+1.7 million)
 Please note that large projects may be approved by more than one investor country!

Project developers

- 155 projects have been submitted in September, a near record level. Large new projects in the pipeline are
 - Two coal mine methane projects (China, 5.0 and 4.6 million CERs by 2012)
 - A district heating system (China, 3.3 million CERs by 2012)
 - Two gas power plants with 390 and 470 MW (India, 3.7 and 3.3 million CERs by 2012)
 - A landfill gas project (Brazil, 3.2 million CERs by 2012)
- A protracted legal battle is ongoing between Energy Systems International (ESIL), a Dutch CDM project developer in China with a portfolio of about 40 projects and 34 million pre-2013 CERs and Pacific Millennium Investment Corporation (PMIC), its Chinese joint venture partner. ESIL argued that PMIC illegally took control of ESIL in early 2007. ESIL has won in the first round of arbitration in San Diego, USA; a second round of arbitration is scheduled in October. The case highlights the risks of CDM joint ventures in China.
- South African utility Eskom is planning demand side management programmes to save 3 GW by 2012 and 8 GW by 2025, preferably through CDM PoAs
- Hyderabad airport is trying to submit its brand-new buildings with high efficiency air-conditioners as an energy efficiency CDM project

Incentives for CDM investment

- The financial crisis has had many victims in the carbon market banking world. Lehman Brothers' bankruptcy, the bailout of Fortis and the takeover of Merrill Lynch have been shocks not easily di-

gested. However, the carbon market activities of all these institutions are seen as assets that will either be sold (Lehman) or continue operations (Fortis).

- The fall in oil and coal prices due to fears of recession has led to a reduction of EUA prices to 23 - 27 Euro on Sep. 30; issued CERs traded around 19 Euro
- In the negotiations about EU ETS rules after 2013, the German Ministry of Environment calls for allowing CER imports of up to 50% of the reduction commitment of the ETS sector. This would allow imports of 1.3 billion CERs in 2013-2020, about half a billion more than proposed by the EU Commission
- The Industry Committee of the European Parliament has proposed to allow companies covered by the EU ETS to import up to 600 million CERs for 2013-2020 even if the EU reduces emissions only by 20%. Another 130 million imports would be reserved for forestry CERs and reductions from a Reduced Emissions from Deforestation and Degradation (REDD) regime. Moreover, governments should be allowed to import 960 million CERs. On October 7, the Environment Committee will vote on its opinion.
- Hungary has sold 2 million AAUs to Belgium at prices rumoured to be close to prices for forward CERs from registered CDM projects
- The Czech government wants to sell 100 million AAUs by the end of 2012 through auctions and bilateral deals. A first tranche of 10 million is set to be auctioned in December. Price expectations are 4 to 10 Euro per AAU
- Japanese electricity utilities have increased their CER acquisition plans from 120 to 190 million to fulfil their voluntary agreement. The increase is due to long outages of nuclear power plants.
- The Irish CER acquisition need has increased by 7 million according to the latest emissions projections
- NEFCO's carbon fund has reached a budget of 42 million Euro
- Austrian's Climate Corporation's Small Scale CDM Portfolio has received 14 million Euro budget from 22 German and Austrian companies from the cement, ceramics and power generation industries. It is the first carbon fund explicitly addressing this target group
- Natsource Carbon Asset Pool's budget has reached 106 million Euro
- Indian banks advise their small enterprise clients to use the CDM and VER market to overcome lack of access to standard loans
- The Korean president proposes a mandatory emissions trading system in Korea for post-2012

Web news and downloads of the month

- A study critically examining the lack of technology transfer in Malaysian CDM projects can be downloaded at <http://www.cd4cdm.org/Publications/TechnologyKnowledgeTransferCDMMalaysia.pdf>
- The non-additionality and worryingly low load factor of Indian wind projects is discussed in detail at http://www.downtoearth.org.in/cover.asp?foldername=20080815&filename=news&sid=41&sec_id=9
- A series of papers on the different aspects of the Bali Action Plan written by experts well acquainted with the negotiations is available at <http://www.undp.org/climatechange/documents.html>
- A paper on sectoral no-lose targets by Climate Focus, Ecofys and G Triple C is available at http://www.sectoral.org/images/presentations/defra_paper%20on%20sector%20no%20lose%20targets_final.pdf
- French bank Caisse des Depots analyzes the role of avoided deforestation in the carbon markets, download at http://www.caissedesdepots.fr/IMG/pdf_08-09_-_Research_report_n14_-_Deforestation_and_carbon_markets-2.pdf
- An excellent compilation of the latest papers on climate change economics, including many on the Kyoto Mechanisms, is available at <http://www.economicclimatechange.com/>
- Christian Flachslund, Robert Marschinski, Ottmar Edenhofer: Global Trading versus Linking: Architectures for International Emissions Trading compares bottom-up and top-down linking options and sees a limited role for the CDM. Download at <http://www.pik-potsdam.de/members/flachs/publikationen/linking-architectures-working-paper>
- An interesting Indian opinion on the additionality issue is available at http://www.carboniyatra.com/news_detail.php?id=2093
- The German Energy Agency has set up a website <http://www.carbonprojects.de/> to support project development in Eastern Europe, the Caucasus region and Central Asia. Unfortunately, the bulk of information is only available in German
- By the end of September, 167 buyers (+8) from 30 countries (+1), 206 (+12) sellers from 50 countries (+1) and 450 service providers (+25) from 57 countries (+3) had listings on CDM Bazaar. India

leads the list of service providers with 101 entries, followed by China with 45, UK with 44, US with 40 and Brazil with 28. 39 projects (+10) have been posted by sellers.

GTZ capacity development

- The Tropical Agricultural Research and Higher Education Center (CATIE), the World Bank, the GTZ on behalf of German Ministry for Development and the Katoomba Group are pleased to announce their joint-international course on "Designing REDD activities to mitigate climate change", to be held at CATIE in Turrialba, Costa Rica from October 27th to 31st. The course will be given in Spanish. For more information contact Zenia Salinas at zsalinas@catie.ac.cr or visit the web www.catie.ac.cr

Other news

- IETA is hosting a Latin American Carbon Forum on October 28-30 at Santiago de Chile and a Carbon Forum Asia on November 12-13 in Singapore.

Country of the month: New Zealand

New Zealand has been one of the countries with the highest creativity in the development of climate policy instruments, but also one of the highest failure rates in actually adopting such instruments. Initially, it was thought that the country would have a emissions budget surplus and thus it started to export ERUs. However, three years ago, the emissions trends showed that there would be a substantial shortage and the government started to discuss emissions trading. The DNA was set up in June 2005. After a lengthy debate, it seemed that the emissions trading system would suffer the same fate as previously carbon and methane taxation, but it won a parliamentary vote on Sept. 10, 2008. Nevertheless, the opposition party has already threatened to vote a new bill if it wins next month's election; and current polls give it a majority. The New Zealand Emission Trading System does not allow import of Assigned Amount Units that do not come from Green Investment Schemes. Draft rules stipulate that CDM approval is limited to New Zealand-based companies and will exclude projects which are "in breach of New Zealand's foreign or development policies". It can only be asked for after host country approval has been granted. Only temporary CERs (tCERs), but not long term CERS from forestry projects are allowed but require additional approval from the Minister of Finance to transfer tCERs from a holding account to a retirement account of the New Zealand Emission Unit Register. Currently, no CDM project has a New Zealand investor or buyer. However, the Ministry of Agriculture and Forestry envisages support for development of baseline methodologies for New Zealand agricultural technologies. So far, only few New Zealand businesses have started to get involved in CDM, inter alia the consultants Sinclair Knight Merz and Carbon Market Solutions.

Number of the month

7 million pre-2013 CERs: Loss or saved environmental integrity, depending on the view, due to rejections at 42nd EB meeting.

CDM counter (as of September 30, 2008)

- Pending large-scale baseline methodologies: 31
 - of which forestry: 1
- Pending small-scale baseline methodologies: 12
- Approved and published large-scale baseline methodologies: 79 (including 15 consolidated ones)
 - of which forestry: 10 (including 1 consolidated one)
- Approved and published small-scale baseline methodologies: 38
- Notified DNAs: 134 (107 host countries, 27 buyer countries)
- Companies applying to become operational entity: 14
- Accredited operational entities: 18
 - Of which 7 for verification

- Projects currently open for public comments on PDD: 156
 - Of which 1 is a PoA
 - Projects that are undergoing and have undergone the public comment period: 2899
 - Of which 80 have officially applied for registration
 - for 17 of which a request for review has been launched
 - Of which 94 have to make corrections
 - Of which 41 are undergoing review
 - Of which 76 have been rejected
 - Of which 502 have been submitted for public comments more than once
 - Of which 21 have officially been withdrawn
 - Of which 5 are PoAs
 - Of which 56 apply for the Gold Standard
 - Expected CERs until 2012 from those projects: 1510 million
 - Of which 84.5 million from those that officially applied for registration
 - Of which 11.5 million from projects with request for review
 - Of which 68.6 million from projects that need to make corrections
 - Of which 16.7 million from those undergoing review
 - Of which 53.0 million from rejected ones
 - Of which 5.9 million from withdrawn ones
 - Registered projects: 1170
 - expecting 1342 million CERs by 2012
 - Of which 0 are PoAs
 - Of which 6 fulfil the Gold Standard
 - Host countries: 50
 - Buyer countries: 20
 - Issued CERs: 195 million
 - Projects with issued CERs: 403
 - CER price: 3-7 Euro for post-2012 vintages, 10-13 Euro for medium-risk forwards, 12-15 Euro for low-risk forwards, 13-16 Euro for registered projects, 18-19 Euro for issued CERs, 19.2 Euro Dec. 2008 future price on Nord Pool exchange
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