

CDM Highlights 65

November 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 financial panic that gripped the planet in October has not left the CDM market unscathed. At the end of the month, CER prices had fallen to levels last seen at the beginning of the year. Still, CERs have performed much better than any shares, supported by the linking of the UN and EU registries. The good health of the CDM market is also shown in the project inflow reaching a new historical high with 199 projects. CER issuance has passed the mark of 200 million.

Anja Wucke, GTZ and Axel Michaelowa, Perspectives

UNFCCC, EB and its panels

- The UNFCCC Secretariat published two background notes for negotiations on CDM reform, with the following key options (download at <http://unfccc.int/resource/docs/2008/cmp4/eng/inf03.pdf> and <http://unfccc.int/resource/docs/2008/cmp4/eng/inf04.pdf>)
 - Methodology approval, DOE accreditation and project registration and issuance could be done by the "support structure" (i.e. the Secretariat and the Panels)
 - Introduction of an appeals body / an appeals chamber within the EB
 - Full time posts for the EB chair and vice chair
 - Code of conduct for EB members and transparency regarding possible conflicts of interest
 - Publication of DOEs' rejections of validation
 - Additionality determination through benchmarks
- The EB made the following decisions at its 43rd meeting on Oct. 22-24:
 - The Validation and Verification Manual was finalized, but not yet published due to the need for a consistency check. Formal adoption will be done at the next meeting. The ability to finalize decisionmaking on the VVM is a very positive sign.
 - The performance test for DOEs (see last issue) will be applied from early 2009 for reaccreditation and those that got their indicative letter less than 12 months ago. Only those applicants whose indicative letter is older than 12 months have to do a witnessing. This removes a bottleneck because site visits were seen as nuisance that no project developer wanted to be done on his project.
 - Names of DOEs under spot check will be published in the future. "Naming and shaming" is seen as incentive for DOEs to improve performance.
 - DOEs validating electricity grid emission factors should check the data at the DNA office (but keep it confidential, if required). If the DNA does not allow the check, the EB will implement the check himself (!).
 - Projects using the landfill gas methodology ACM 0001 can use any publicly available document regarding regulation for landfill gas capture
 - Out of 40 projects under review, 8 were rejected - 5 large waste heat recovery projects from China, one biomass power plant in Brazil, a biogas and wastewater project. The reasons for the rejections of the waste heat recovery projects were mainly wrong use of benchmarks. 3 projects were registered and 29 have to make corrections. Corrections relate to the same issues, mainly additionality, as in the last meeting.
 - Out of 19 review requests, one project was registered, 9 projects have to make corrections and 9 projects are put under review, of which 4 Chinese hydro and two waste heat recovery projects.
 - A review request of renewal of crediting period did not lead to a review. The EB stated that only data used have to be updated, but that the baseline scenario remains the same as in the original PDD.

- Regarding 10 review requests for issuance, 9 issuance requests have to make corrections and one issuance took place.
- The 8 reviews for issuance led to 1 rejection (landfill gas project in Chile, 16,400 CERs lost) due to problems with the sampling. To avoid public shaming, several project developers withdrew their requests for issuance, inter alia one request for 430,000 CERs from an adipic acid project in China, 46,000 CERs from a landfill gas project and 11,000 CERs from a wastewater project.
- PDDs no longer have to be republished if a methodology is revised during the validation process.
- The RIT was expanded by 4 members
- The EB was unable to decide on the following issues and relegated them to the next meeting:
 - Revision of rules for Programmes of Activity (PoAs), “first of its kind” barrier and common practice test
- The EB has now 12 staff in the registration department, up from 4 in January. About 680 projects have been submitted for registration during 2008, whereas about 450 were published. This leaves an overhang of about 250 projects for which the completeness check is still to be done. However, all indicators show that the completeness check duration will come down.

Designated Operational Entities

- The Italian company RINA was accredited for validation of energy projects. KPMG did not apply for reaccreditation for validation of energy projects.

Designated National Authorities

- Sierra Leone has notified its DNAs
- The DNA host country approval hitlist stands at
 - China: 1594 projects (+43). The new approvals include 15 wind, 13 hydro, 7 waste heat recovery, 3 ultra-supercritical coal power plants and waste incineration each, 2 Coal Mine Methane and 1 biomass power project. Total annual CER volume is estimated at 6.7 million per year.
 - India: 1069 projects (+0).
 - Brazil: 191 projects (+1)
 - Mexico: 189 projects (+0).
 - Indonesia: 70 projects (+0).
 - Vietnam: 56 projects (+12). 10 hydro, 1 wind and one wastewater project have been added. Annual CER volumes are 4.5 million (+0.8 million)
 - Philippines: 55 projects (+0).
 - Thailand: 41 projects (+3), with two biomass power and one wastewater project newly approved.
 - Colombia: 31 projects (+1). 1 small hydro project has been added.
 - 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: 370 projects (+11). Annual CER volume is estimated at 119 million (+ 0.3 million)
 - Sweden: 124 projects (+0).
 - Germany: 111 projects (+18).
 - Spain: 75 projects (+0).

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

Project developers

- 199 projects were submitted in September, setting a new record. Large new projects in the pipeline are
 - Two hydro power plants with 1200 and 1000 MW (India, 6.0 and 4.9 million CERs by 2012). Given the advanced stage of these plants, it might be difficult to prove serious consideration of the CDM before building start.
 - Two coal mine methane projects (China, 5.3 and 4.1 million CERs by 2012)
 - A district heating system (China, 3.0 million CERs by 2012)
 - Two hydro power plants with 240 and 210 MW (China, 3.7 and 2.5 million CERs by 2012).
- Credit Suisse is inviting bids on 11.5 million CERs from a bundle of 25 projects

- Tricorona's CER portfolio has reached 75 million at the end of September; it posted a quarterly gain of 4 million Euro.
- Trading Emissions posted a deficit (operating costs - CER sales revenues) of 4 million Euro in the year 2007/2008, with its CER portfolio decreasing from 61 million in mid-2007 to 50 million at the end of June 2008 and then increasing to 53 million in mid-October. Post-2012 CERs stood at 11 million, up 2 million from June. The profit on the sales of 5.9 million CERs has been over 100%. 5 million Euro have been used to buy own shares on the exchange.
- FAO supported a conference on the CDM potential of soil carbon sequestration by farmers.

Incentives for CDM investment

- The UN and EU emissions registries were finally linked on October 16, ending a saga that had put pressure on CER prices for many years
- In the last weeks of October, EUA prices plunged to reach 18- 20.5 Euro on Oct. 31; losing more than 5 Euro in the month. Issued CERs traded for around 15 Euro, down 4 Euro. Price premiums for later vintages have vanished, showing that buyers expect lower demand in the latter years of the commitment period.
- The environment committee of the European Parliament voted on the EP position regarding CER import thresholds in early October. This vote now started the negotiations with the Council and the Commission. Industry lobbying to expand CER imports has not borne fruit in the EP. Essentially, companies that restrict their imports before 2008 would be able to import more later. The new rule would limit imports to ~700 million before 2008 (half of the current limit of 1.4 billion, which would still remain valid as alternative), while granting 700 million in 20013-2020. So on aggregate, it would not be attractive. However, on a company-by-company base it could become attractive to switch, especially for companies from countries with low import caps pre 2013. Only "high quality CERs" would be allowed. Rumours say that this excludes industrial gases and that the detailed definitions are currently under development jointly with the US EPA.
- The EU Council confirmed expansion of EU ETS to cover air traffic from 2012. The air traffic allowances are not fully fungible with the EU allowances. CERs and ERUs can be imported for up to 15% of allocation.
- The Portuguese government carbon fund is not receiving its allocated budget due to lower than expected tax revenues on incandescent lamps and heating oil.
- The UK has set up a ministry of energy and climate, thus increasing the status of climate policy.

Web news and downloads of the month

- Presentations of the Africa Carbon Forum are available at <http://www.ieta.org/ieta/www/pages/index.php?IdSitePage=1560>
- Different forms of a reformed CDM contributing to global emissions reduction are discussed by Lambert Schneider in his paper "A Clean Development Mechanism (CDM) with Atmospheric Benefits for a Post-2012 Climate Regime", download at <http://www.oeko.de/oekodoc/779/2008-227-en.pdf>
- A modelling analysis of the Netherlands Bureau for Economic Policy Analysis on the impact of CER import thresholds on the propensity of EU industry to relocate is available under the misleading title "Border tax adjustment and the EU-ETS, a quantitative assessment" at <http://www.cpb.nl/eng/pub/cpbreeksen/document/171/doc171.pdf>
- A detailed study on the EU's emission reduction target, intended use of CDM and its +2°C target is available at <http://www.europarl.europa.eu/activities/committees/studies/download.do?file=22071>. For those interested in a legal analysis of the CER import limits, Joelle de Sépibus' paper "Linking the EU Emissions Trading Scheme to JI, CDM and post-2012 International Offsets" can be found at <http://www.nccr-trade.org/images/stories/projects/ip6/de%20Sepibus%20Linking%20paper.pdf>
- The 662 page-thick Garnaut climate change review (see earlier issues on CDM-related elements of drafts of this review) is available at <http://www.garnautreport.org.au/#FinalReport>
- Mandatory acquisition of emissions credits from developing countries while relaxing accounting stringency is proposed by Andrew Keeler and Alexander Thompson in the paper "Industrialized-Country mitigation policy and resource transfers to developing countries: Improving and expanding Greenhouse Gas Offsets", download at <http://belfercenter.ksg.harvard.edu/files/KeelerWeb4.pdf>
- The report of the post-2012 CDM workshop held in Lund University in May can be downloaded at <http://www.adamproject.info>. Look for the news section.

- Cyril Loisel discusses the linkage between forest-based mitigation and GHG markets. Download at http://www.iddri.org/Publications/Collections/Idees-pour-le-debat/Id_0819_Loisel_linkage-forest-based-&-GHG-markets.pdf
- A paper by Lia Sieghart: "Programmatic CDM" - An Answer for the Middle East and North Africa Region?" is available at www.cdm-yemen.org.
- A Danish-financed CDM capacity building programme has set up its website at <http://www.uneprioe.org/greenfacility/>
- Background material on the World Bank CF Assist capacity building programme can be found at www.cfassist.org
- By the end of October, 172 buyers (+5) from 30 countries (+0), 214 (+8) sellers from 51 countries (+1) and 467 service providers (+17) from 57 countries (+0) had listings on CDM Bazaar. India leads the list of service providers with 108 entries, followed by China and UK with 45, US with 41 and Brazil with 29. 33 projects (-6) have been posted by sellers.

Other news

- China hosts a conference and training for CDM developers and stakeholders from other developing countries from November 16 - 23, supported by the World Bank. Further information is available at <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/EXTEAPREGTOPENVIRONMENT/0,,contentMDK:21915756~pagePK:34004173~piPK:34003707~theSitePK:502886,00.html>.
- To improve the reputation of the CDM, the UNFCCC Secretariat has launched a photo contest with the theme "CDM Changing Lives". The contest is open to any photographer, amateur and professional, but entries must be submitted by Project Participants of registered CDM projects, through a special up-load facility on the CDM website. This up-load facility will be available to accept entries from 1 November 2008.

Country of the month: Ireland

Ireland has been one of the countries at the sidelines of the international climate policy development. Due to rapid increases in income and economic activities, emissions have increased by 26% since 1990. During the commitment period, the target gap is likely to reach 47 million t CO₂ even if the measures outlined in the recently revised climate policy strategy deliver the expected results. The government wants to buy 18 million CERs, ERUs and AAUs through a carbon fund administered by the National Treasury Management Agency. 290 million Euro have been budgeted. The national climate change strategy states that risk should be minimised, particularly in relation to the timely delivery of credits. At current carbon market prices, the budget would cover 50% of the gap. Moreover, the government has invested 20 million Euro in the "European Bank for Reconstruction and Development" Multilateral Carbon Credit Fund. Ireland notified its DNA in January 2007. So far, private companies from Ireland have been reluctant to get active in the CDM market despite the possibility to import 23 million CERs and ERUs during the commitment period. However, Ireland was the place where the pig waste methane destruction company AgCert went into receivership, the Irish version of bankruptcy.

Number of the month

3072: Projects that have started the public comment process.

CDM counter (as of October 31, 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: 135 (108 host countries, 27 buyer countries)
- Companies applying to become operational entity: 13
- Accredited operational entities: 19
 - Of which 7 for verification
- Projects currently open for public comments on PDD: 182
 - Of which 0 is a PoA
- Projects that are undergoing and have undergone the public comment period: 3072
 - Of which 112 have officially applied for registration
 - for 24 of which a request for review has been launched
 - Of which 132 have to make corrections
 - Of which 9 are undergoing review
 - Of which 84 have been rejected
 - Of which 537 have been submitted for public comments more than once
 - Of which 22 have officially been withdrawn
 - Of which 5 are PoAs
 - Of which 59 apply for the Gold Standard
- Expected CERs until 2012 from those projects: 1550 million
 - Of which 127.6 million from those that officially applied for registration
 - Of which 21.8 million from projects with request for review
 - Of which 72.9 million from projects that need to make corrections
 - Of which 8.3 million from those undergoing review
 - Of which 56.8 million from rejected ones
 - Of which 5.9 million from withdrawn ones
- Registered projects: 1190
 - expecting 1361 million CERs by 2012
 - Of which 0 are PoAs
 - Of which 7 fulfil the Gold Standard
 - Host countries: 51
 - Buyer countries: 14
- Issued CERs: 204 million
 - Projects with issued CERs: 412
 - Of which 1 Gold Standard project
- CER price: ~7 Euro for post-2012 vintages, 6-10 Euro for medium-risk forwards, 11-14 Euro for low-risk forwards, 12-15 Euro for registered projects, 15 Euro for issued CERs, 15.0 Euro Dec. 2008 future price on Nord Pool exchange

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