

## CDM Highlights 66

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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!

The EB has launched a bombshell with the suspension of DNV, the market leader in validation and verification. Moreover, the immediate introduction of the Validation and Verification Manual will be challenging for regulators and regulated alike. Given the backdrop of a carbon market heavily shaken by the economic crisis, the months ahead will be very stormy.

Anja Wucke, GTZ and Axel Michaelowa, Perspectives

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### UNFCCC, EB and its panels

- The EB made the following decisions at its 44<sup>th</sup> meeting on Nov. 26-28:
  - The Validation and Verification Manual was approved and immediately comes into effect. The last ditch effort of IETA to prevent “absolute assurance” was in vain. The key elements of the VVM are
    - Definition of terms “accurate”, “conservative”, “relevant”, “credible”, “reliable”, “complete”, “consistent”, “transparent”
    - “Completeness is defined as all inclusion of “all relevant information for GHG emissions and removals and the information supporting the methods applied”
    - “Consistency” is seen as use of uniform criteria for projects with similar characteristics (methodology, technology, time period or region) and for expert judgements, over time and among projects
    - “Transparency” requires DOEs to clearly reference background material and state and document all assumptions
    - DOEs shall base their findings and conclusions upon objective evidence; evidence shall not be limited to that provided by the project participants. If necessary, independent background investigations are to be done.
    - For validation, interviews with relevant stakeholders in the host country are to be held
    - If corrective action requests are resolved, a clear reference to any resulting changes in the PDD is to be made
    - Validators have to ask commentators for further clarification if comments state that a project does not fulfil the CDM rules
    - Site visits are mandatory for retrofit projects estimating more than 15,000 CERs per year. For all other projects, the DOE has to “appropriately justify” if no site visit is done
    - The conformity of the project with each applicability condition of the methodology used has to be explained in detail
    - If emissions happen that are not covered by the methodology and are above 1% of the CER level, they have to be reported
    - If a tool and a methodology using this tool are inconsistent, the methodology has precedence
    - The baseline scenario has to reasonably represent what would occur in the absence of the project; local expert opinion is to be consulted if available. All plausible alternatives that are viable means of supplying the outputs or services that are to be supplied by the proposed CDM project have to be assessed
    - For validation of additionality, a DOE has to use local knowledge and sectoral and financial expertise. It has to show how it checked the authenticity of documentation.
    - For assessment of the investment test, expertise in relevant accounting practices is required
    - Barrier validation has to be done using independent sources

- To fulfil the common practice test in the case of a high number of similar projects “essential distinctions” to the CDM project have to be proven. If a region different from the host country is chosen, the explanation has to be assessed
- It has to be assessed whether the monitoring arrangements described in the monitoring plan are feasible within the project design
- Local stakeholders have to be interviewed by the DOE regarding the appropriateness of local stakeholder consultation by the project developers
- Regarding verification, it has to be proven that all physical features of the CDM project proposed in the registered PDD are in place
- Data that have caused an increase in estimates of the emission reductions in the current monitoring period or is highly likely to increase the estimates of emission reductions in the future monitoring periods has to be reported specifically
- Verification has to show that the validated monitoring plan is in accordance with the approved methodology applied by the proposed CDM project. This will be a challenge for many projects validated at a time when monitoring was taken less seriously than today.
- Monitoring results have to be consistently recorded as per approved frequency. This will be another serious challenge for project developers.
- If data have not been monitored properly the most conservative assumption theoretically possible has to be made. Otherwise, a request for deviation from or revision of the monitoring plan has to be made
- o 2 large-scale methodologies were approved – centralized manure collection and use of permeate gas, which are very specific and unlikely to be used widely. 6 large-scale methodologies with potentially wide applicability were rejected: low-transport-oriented urban planning, slag cement blending, fuel switch, two energy efficiency processes in iron production and landfill excavation.
- o 9 methodology revision requests were rejected (some of which would have been important, such as expansion of the bus transit methodology to rail systems) and 4 approved. Regarding the latter, the use of waste incinerators can now include up to 50% of fossil waste to make methodology AM 25 applicable.
- o 4 new small-scale methodologies were approved: energy efficiency improvement and HFC recovery in refrigerators and methane avoidance through solid waste separation from wastewater; and two widely applicable methodologies regarding agroforestry and land currently used for extensive cattle ranching
- o The deemed savings methodology for efficient lighting was made much easier to apply, by allowing projects that do not include direct installation and that give away lamps for free. T&D losses are no longer capped at 10%. For long-life lamps, ex-post surveys need not be done every 3 years. The need to calculate leakage from increased heating load is essentially waived as it now only applies for projects where households receive more than 4 lamps
- o Leakage from continued use of replaced equipment can now be disregarded. This makes application of small-scale programmes for distribution of energy efficient appliances much easier
- o Fossil fuel emissions in forestry projects can be disregarded
- o Forestry projects can wait with the definition of their project boundary until the first verification
- o Out of 8 projects under review, 1 was rejected – the first Chinese hydro plant to suffer this fate. – 7 have to make corrections, including 2 large waste heat recovery projects from China, Corrections relate mainly to the values used in the investment test.
- o Out of 29 review requests, 12 projects have to make corrections and 17 projects are put under review, of which 4 Chinese hydro, 3 waste heat recovery and 2 coal mine methane projects.
- o Out of 3 projects that made corrections, one hydro plant in Brazil and a bagasse plant in India were rejected due to lack of serious consideration. This confirms the tendency that corrections are difficult to make.
- o Regarding 14 review requests for issuance, 11 issuance requests have to make corrections and 3 projects will be reviewed.
- The EB was unable to decide on the following issues and relegated them to the next meeting:
  - o As in the previous meeting: Revision of rules for Programmes of Activity (PoAs), “first of its kind” barrier and common practice test
  - o New items: New capacity of industrial gas plants and plant load factor estimates of wind power plants
- Pedro Barata (Portugal) and Martin Hession (UK) stated that they refrain from decisionmaking for projects that got DNA approval in their countries due to possible conflict of interest. This is likely to step up pressure on the EB members from Brazil, China and India to follow suit.
- Kai-Uwe Schmidt, who has been involved with the CDM right from its inception leaves the UNFCCC Secretariat.

## Designated Operational Entities

- DNV was suspended! It can still deal with projects that it has submitted for registration, but all other projects that are in the validation pipeline or where DNV is the verifier are stuck. According to the EB, the suspension can be levied through electronic decisionmaking; it could thus be over in less than 2 months.
- Japan Consulting Institute could suffer the same fate, unless the Accreditation Panel confirms that JCI has corrected all its deficiencies
- The Italian company RINA was accredited for validation of waste projects.

## Designated National Authorities

- Serbia notified its DNA
- A new Indian electricity grid baseline emissions factor was published. Instead of four grids, now only one new Integrated Northern, Eastern, Western, and North-Eastern regional grids (NEWNE) and the Southern Grid are used.
- A DNA-approved grid emissions factor for Tanzania can be downloaded from the CD4CDM Tanzania project website: <http://www.cd4cdm.org/tanzania.htm> under "Emission Factors".
- The DNA host country approval hitlist stands at
  - China: 1598 projects (+3). The new approvals are 3 hydro plants with 0.7 million CERs per year. The Chinese DNA is reported to have lowered the floor price by 0.5 Euro.
  - India: 1138 projects (+69)
  - Brazil: 195 projects (+4), all swine waste management projects
  - Mexico: 189 projects (+0).
  - Vietnam: 78 projects (+22). 8 hydro, 2 gas power, animal waste and wastewater, 1 bagasse co-generation, composting, wind and forestry project each have been added. Annual CER volumes are 5.6 million (+2.1 million).
  - Indonesia: 70 projects (+0).
  - Philippines: 55 projects (+0).
  - Thailand: 41 projects (+3), with two biomass power and one wastewater project newly approved.
  - Colombia: 31 projects (+0).
  - Peru: 24 projects (+0)
  - Israel, Argentina and South Africa: 19 projects (+0).
  - For the first time in a long period, no investor country in our list reported an approval

## Project developers

- The submission of new projects slowed down considerably. Large new projects in the pipeline are
  - One coal mine methane project (China, 3 million CERs by 2012)
  - Two wind power plants with 300 MW each (China, 2.5 million CERs each by 2012).
- A "Project Developers Forum" was set up in to lobby the CDM regulators. It is headed by Martin Enderlin from EcoSecurities; founding members are AES Climate Solutions, Camco, Climate Change Capital, EcoSecurities, First Climate, Icecap, Natsource, Sindicatum Carbon Capital and Tricorona.
- JBIC has signed a cooperation agreement with Qatar Petroleum for CDM project development
- Nitric acid project developer N.serve has sold 300,000 primary CERs from 6 of its projects to Electabel GDF Suez via the auction mechanism offered by World Green Exchange.
- The German utility RWE has bought a stake of 50% in the CDM project developer Agrinergy, whose focus is India.
- As a fallout of the banking crisis, Credit Suisse is closing its New York carbon trading office and reduce carbon trading staff in London

## Incentives for CDM investment

- The world economic crisis is a chance and risk for climate policy. On one hand, fear of job losses leads to calls to abolish "costly" climate policy measures. On the other hand, spending to keep the economy afloat is highly effective in renewable energy and energy efficiency, as these sectors are highly labour intensive. It is still too early to assess which effect will be stronger.

- A rift has opened within the EU regarding the stringency of 2020 targets and the share of allowances auctioned. Italy and Poland have called for more lenient targets and free allowance allocation to industry. Due to heavy pressure of industry lobbies, Germany has also given up its former leadership role. Negotiations to still close a deal under the French EU presidency are scheduled for December 11-12
- The fall in heavy industry production is likely to reduce demand for EU allowances. Many steel producers have reduced production by 20-30%. IdeaCarbon has estimated EU allowance demand to fall from 1 billion to 0.57 billion for the period 2008-12. The EU allowance price has fallen to 15.5 Euro, issued CERs only somewhat to 14 Euro. At one point, the gap between EU allowance and CER prices had fully closed.
- New Zealand's new conservative government, which puts a low priority on climate policy, has scrapped the just introduced emissions trading scheme and mulls a carbon tax. This reinforces the stop and go nature which has characterized New Zealand's climate policy in the past.
- Greece has now been cleared by the UNFCCC to participate in the Kyoto Mechanisms.
- The UK climate bill that specifies a 26% reduction target by 2020 is not limiting CER imports, despite strong efforts by the opposition to introduce a limit at 30%, later at 50%.
- Portugal has budgeted 24 million Euro in Natsource's Carbon Asset Pool. It has also started a kind of domestic JI, scheduled to reduce 2 million t CO<sub>2</sub> at a price of 9.5 Euro per t.
- Spain has bought 6 million AAUs from Hungary. Slovakia sold 10 million AAUs at 6.05 Euro to a Swiss company; the first private AAU deal.
- German companies who submitted over 40 projects for coal mine methane energy as JI, but got rejected, are now suing the German government regarding the rejections.
- JBIC is offering primary CERs on its trading website from projects developed, inter alia, by MGM and TFS. The projects will be rated by IdeaCarbon. In contrast to other attempts of this type, it might be successful due to the good access of JBIC to Japanese CER buyers.

#### Web news and downloads of the month

- The CD4CDM annual edited volume "A Reformed CDM – including new Mechanisms for Sustainable Development" with 17 papers from CDM specialists is available at <http://www.cd4cdm.org/Publications/Perspectives/ReformedCDM.pdf>
- The U.S. Congress General Accounting Office's report "International Climate Change Programs: Lessons Learned from the European Union's Emissions Trading Scheme and the Kyoto Protocol's Clean Development Mechanism" is available at <http://www.gao.gov/new.items/d09151.pdf>. It concludes that CDM's "effects on emissions are uncertain, and its effects on sustainable development have been limited".
- A summary of the studies estimating actual CER issuance before 2013, done by IdeaCarbon, is available at <http://communities.thomsonreuters.com/Carbon/144631>. It finds a downward trend of estimates that are currently at 1.5 to 2 billion CERs
- An overview of the CDM project pipeline, the geographical and technological distribution of projects, and, among others, success factors for the CDM (e.g. DNA organisation, technology transfer policies, focus on sustainable development, etc.) by Foundation JIN can be downloaded from <http://www.jiqweb.org/cdm-status.pdf>
- A study on technology priorities in the five CDM host countries Chile, China, Israel, Kenya and Thailand "Promoting Sustainable Energy Technology Transfers through the CDM: Converting from a Theoretical Concept to Practical Action" is available at: <http://www.jiqweb.org/enttrans-final-report.pdf>
- For a nice overview paper on the Kyoto Mechanisms and carbon markets with a wealth of references see [http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2008/10/27/000158349\\_20081027150127/Rendered/PDF/WPS4761.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2008/10/27/000158349_20081027150127/Rendered/PDF/WPS4761.pdf)
- Dutch ECN has published "Progress on including CCS projects in the CDM: Insights on increased awareness, market potential and baseline methodologies, download at <http://www.ecn.nl/docs/library/report/2008/m08087.pdf>
- A companion to Baker McKenzie's CDM rulebook focuses on JI and is available at [www.jirulebook.org](http://www.jirulebook.org).
- By the end of November, 177 buyers (+5) from 31 countries (+1), 221 (+7) sellers from 53 countries (+2) and 482 service providers (+15) from 57 countries (+0) had listings on CDM Bazaar. India leads the list of service providers with 110 entries, followed by the UK with 46, China with 45, US with 41 and Brazil with 29. 42 projects (+9) have been posted by sellers.

## Other news

- After three years of lack of a coordinated NGO input on the CDM, the watchdog organization “CDMWatch” is revived in Bonn. An expert will be hired to update the CDM toolkit, to organize capacity building workshops in Brazil and India and to support NGOs around the world with regard to problems with CDM projects. For one year, the project will be financed from revenues of auctioning of EU allowances by the German government.
- The Carbon and Climate Law Review will publish a special issue “ Legal Aspects of the Clean Development Mechanism” in March 2009

## Country of the month: Poland

Poland, the host of COP 14, has so far shown surprisingly little activity in the CDM market. The country set up its DNA in July 2007, much later than other EU member states. So far, no CDM project with has been approved by the Polish DNA KASHUE and none is under validation. This is surprising as Polish companies could have made a lot of money by buying CERs, selling the same amount of EU allowances and submit the CERs for compliance with their EU ETS obligation. The Polish DNA organized a seminar on CDM in October 2007 and published a guide on CDM projects in China. Apart from the companies Vertis and Atmoterm, no companies have been actively offering CDM consultancy in Poland. Validators DNV and BSI advertise their services in Polish language.

## Number of the month

4: Number of meeting in which the reform of programmatic CDM rules has been on the agenda of the CDM EB without being decided

## CDM counter (as of November 30, 2008)

- Pending large-scale baseline methodologies: 23
  - of which forestry: 1
- Pending small-scale baseline methodologies: 8
- Approved and published large-scale baseline methodologies: 81 (including 15 consolidated ones)
  - of which forestry: 10 (including 1 consolidated one)
- Approved and published small-scale baseline methodologies: 42
  - of which forestry: 3
- Notified DNAs: 136 (109 host countries, 27 buyer countries)
- Companies applying to become operational entity: 22
- Accredited operational entities: 19, with another one suspended
  - Of which 6 for verification, with another one suspended
- Projects currently open for public comments on PDD: 106
  - Of which 0 is a PoA
- Projects that are undergoing and have undergone the public comment period: 3123
  - Of which 177 have officially applied for registration
  - for 41 of which a request for review has been launched
  - Of which 116 have to make corrections
  - Of which 18 are undergoing review
  - Of which 87 have been rejected
  - Of which 550 have been submitted for public comments more than once
  - Of which 23 have officially been withdrawn
  - Of which 5 are PoAs
  - Of which 81 apply for the Gold Standard

- Expected CERs until 2012 from those projects: 1547 million
    - Of which 157.2 million from those that officially applied for registration
      - Of those 76.6 million from projects with request for review
    - Of which 94.4 million from projects that need to make corrections
    - Of which 8.0 million from those undergoing review
    - Of which 57.7 million from rejected ones
    - Of which 6.2 million from withdrawn ones
  - Registered projects: 1242
    - expecting 1383 million CERs by 2012
    - Of which 0 are PoAs
    - Of which 7 fulfil the Gold Standard
    - Host countries: 51
    - Buyer countries: 14
  - Issued CERs: 225 million
    - Projects with issued CERs: 428
    - Of which 1 Gold Standard project
  - CER price: ~7 Euro for post-2012 vintages, 6-10 Euro for medium-risk forwards, 10-12 Euro for low-risk forwards, 11-13 Euro for registered projects, 13-14 Euro for issued CERs, 13.9 Euro Dec. 2008 future price on Nord Pool exchange
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## Imprint

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Deutsche Gesellschaft für Technische  
Zusammenarbeit (GTZ) GmbH  
- German Technical Cooperation -  
Dag-Hammarskjöld-Weg 1-5  
65760 Eschborn  
Germany  
[www.gtz.de/climate](http://www.gtz.de/climate)

Author: Axel Michaelowa, Perspectives GmbH