

## CDM Highlights 70

April 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!

Spring is coming in the Northern hemisphere and the mood of the CDM community is also improving. The EB has cut the gordic knot of DOE accreditation, which should lead to a substantial reduction of time and fees spent for validation and verification. CER prices have stabilized. The long-awaited U.S. congress bill on the domestic emissions trading system specifies a huge import quota for international offsets that dwarfs the current EU quota. However, some April showers threaten such as the continued stalling of PoA rules, further impacts of the economic crisis and the emergence of a "sectoral crediting mechanism" as a negotiation chip of the EU.

Anja Wucke, GTZ and Axel Michaelowa, Perspectives

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### UNFCCC, EB and its panels

- The EB made the following decisions at its 46<sup>th</sup> meeting on March 23-25
  - The DOE accreditation standard and procedures were approved, which now allow accreditation without a "witnessing" on a concrete project. This has removed a key obstacle to the accreditation of further DOEs.
  - In a bold move, applying the new accreditation rules, 9 new DOEs were accredited for validation and verification, of which 2 Chinese (China Quality Certification Center, China Environmental United Certification Center), 1 Korean and 1 Malaysian entities. 5 DOEs were reaccredited, with an expansion of scopes. LRQA and ICONTEC are now accredited for validation and verification, also with an expansion of scopes. JQA has been accredited for waste project validation. Given the recent substantial increase in validation cost which multiplied by a factor of 2 to 3 during the last 12 months, this mass accreditation will increase competition and reduce fees as well as waiting times for validation and verification.
  - 7 applicant DOEs, whose application has been pending for more than 18 months, need an on-site assessment before accreditation.
  - A methodology on SF<sub>6</sub> reduction from electrical equipment testing was approved, while methodology proposals on landfill gas, coal-gas conversion, solar water heating and SF<sub>6</sub> losses in electrical equipment manufacturing were rejected.
  - A consolidated forestry methodology for degraded land was approved
  - A small-scale methodology was approved for efficiency improvement in brick manufacture. The 3<sup>rd</sup> category of small-scale methodologies has now exhausted the full alphabet, reaching the letter Z ....
  - The EB has suddenly developed the opinion that prescribing a certain monitoring standard in a methodology (such as a European norm) is not acceptable and decided that "flexibility should be provided to project participants in selecting appropriate monitoring practices, including national and international performance standards". The Meth Panel is to review all methodologies to ensure that this choice is allowed.
  - ACM 0005 on cement blending has been put on hold due to problems with barrier analysis.
  - In a decision on fuel switch methodology ACM 0009, the EB rejected the Meth Panel proposal to use the emission factor of the least carbon intensive baseline fuel for the baseline as too conservative. The EB proposes a weighted average emission factor of fuels that can be used in the baseline. Likewise, in the context of the fuel switch methodology AMS III.B, the EB without discussion rejected the requirement of a mandatory investment analysis and proposed that the methodology be split in several methodologies to account for each possible fuel.

- Public comments are invited on efficiency in the operation of the CDM and opportunities for improvement until May 4. DNAs are invited to comment on rules simplifications for projects from countries with less than 10 registered projects until the same deadline
- Regarding new industrial gas project methodologies, any submission has to show that there are no disincentives for technological development. This has to be proven using data on production, trade and consumption patterns and technology trends. Moreover, any diversion of production from existing plants to the CDM plant has to be taken into account. The issue of displacement of production from Annex I countries will only be discussed once specific cases come in. The EB did not specify how it deals with existing submissions on new capacity.
- The new “Tool to assess the validity of the original/current baseline and to update the baseline at the renewal of a crediting period” requires a baseline update if new mandatory policies have been introduced during the preceding crediting period. Moreover, an update is required when “new circumstances make a continued validity of the current baseline not plausible”. The challenge here is to assess what is a “new circumstance”. The baseline also has to be updated if emission factors or benchmarks have been used ex-ante. The baseline update has to be done using the currently applicable version of the methodology at the time of the request for renewal of crediting period. The tool conflicts with the old EB decision that policies reducing emissions introduced after 2001 need not to be taken into account in the baseline.
- AK Perumal, an Indian energy auditor, became a new member of both the Meth Panel and the Small-Scale Working Group. Perumal supports a strict interpretation of additionality; he favours expansion of the additionality tool to small-scale projects.
- Out of 59 Requests for Review, 34 projects will be reviewed, most of which are Chinese hydro and wind projects. 5 will be registered as corrected and 20 have to make corrections. The main problems raised are serious consideration of CDM before project start and parameters for the investment test. An issue becoming more important is unrealistically high auxiliary consumption of Chinese hydro plants.
- A record 12 projects were rejected (4 of them hydro projects in China). Another 32 projects have to make corrections of which 26 are principally resolved.
- Of 7 Requests for Review of issuance 3 have to make corrections and 4 go for review. Of the 9 reviews of issuance, one was rejected (a nitric acid project) and 8 have to make corrections.
- The Registration and Issuance (RIT) Team RIT can now be extended indefinitely. 25 out of 34 RIT members were reconfirmed. A call for new members is open until May 4.
- The revision of rules for programmatic CDM, accreditation standards and procedures as well as guidance on barrier and common practice testing have for the x<sup>th</sup> time been postponed, as well as the question of plant load factors

### **Designated National Authorities**

- The DNA host country approval hitlist stands at
  - China: 1882 projects (+36). The new approvals include 10 wind, 8 hydro, 3 LFG, wastewater and coal mine methane, 2 waste heat recovery and cement blending and 1 biofuel, cogeneration, forestry and waste incineration project each. Total annual CER volume is estimated at 4.5 million
  - India: 1172 projects (+0). The DNA has updated its website at [www.cdmindia.in](http://www.cdmindia.in), where project developers have to submit online applications. However as a transitional measure the project proponents shall also submit hard copies of PDDs until 30 September 2009
  - Brazil: 204 projects (+6)
  - Mexico: 189 projects (+0).
  - Indonesia: 90 projects (+0).
  - Vietnam: 82 projects (+4). 2 wastewater and 2 hydro projects estimate 0.3 million CERs per year
  - Thailand: 60 projects (+7). 6 wastewater and 1 biomass power plant forecast 0.3 million CERs p.a.
  - Philippines: 55 projects (+0).
  - Colombia: 37 projects (+0).
  - Peru: 24 projects (+0)
  - Argentina: 24 projects (+4), of which 1 gas power plant, landfill, waste and wastewater project each
- The DNA investor country approval hitlist stands at
  - UK: 816 projects (+0). The last update dates from August 2008...
  - Japan: 415 projects (+0).

- Sweden: 224 projects (+40).
- Germany: 132 projects (+1).
- Spain: 89 projects (+5)

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

### **Project developers and consultants**

- The submission of new projects picked up again to 123 projects. An Indian forestry project estimates 2.6 million tCERs by 2012
- The first energy efficient lighting project was registered. It distributes 0.63 million compact fluorescent lamps in an Indian city. The registration is likely to spark a wave of submissions of this project type
- PointCarbon has acquired the CDM consultancy Perspectives to strengthen its analytical capacity in the CDM market. Following the acquisition, Perspectives will no longer source and broker CDM projects, ensuring total independence in terms of its advisory services.
- Swiss project developer South Pole has sold a minority share to BP Alternative Energy and has acquired Vietnamese CDM developer VNEEC.
- Carbon market lobby group International Emission Trading Association (IETA) has criticized trades of Assigned Amounts Units (AAU) without proper “greening” of the revenues
- Ecosecurities’ loss in 2008 reached 32.2 million Euro. Its CER portfolio at the end of 2008 reached 103 million, down from 130 million at the end of 2007. Average CER sales contract prices reached 13.7 Euro per CER whereas average generation cost was 7.9 Euro. However, continued shortfalls in CER issuance led to the need to buy CERs on the secondary markets at a much higher cost.
- Trading Emission contemplates resubmission of its rejected waste heat recovery projects in China. It made a profit of 9 million Euro on a loan repayable in CERs it gave to Econergy. The total risk-adjusted CER portfolio stands at 47 million with an average generation cost of 7.7 Euro.
- Climate Change Capital has laid off 50% of its staff in China
- DNV has taken up U.S. carbon market consultant Mark Trexler with 8 of his staff. This signals a move of DNV into consulting. Trexler and his team had left Ecosecurities after a surprisingly short period
- Finnish company Neste oil is planning investment in CDM projects in the Malaysian palm oil industry, as it tries to procure feedstock for its biodiesel plant in Finland
- Danish company Maersk plans a Carbon Capture and storage (CCS) CDM project at the Al Shaheen oil field in Qatar, where a gas flaring reduction had been registered as the Middle East’s first CDM project
- 11 sponge iron units located in a cluster of 5 km radius in the Indian state of Orissa are aiming for a joint 60 MW waste heat recovery power plant

### **Incentives for CDM investment**

- EU allowances have seen a rebound to 11.5 Euro for the spot market and 14.3 Euro for 2012 vintages. The spread to issued CERs has widened to about 1 Euro.
- The auction of the spread between primary CERs from a Chinese wind project and secondary CERs by the exchange Climex (see last issue) achieved a price of 1.98 Euro, i.e. a price of about 8.6 Euros. This means a de-freezing of the Chinese market for wind power projects, as they can now again trade above the floor price.
- PointCarbon has reduced its forecast of the total shortfall in the EU ETS from 290 to 130 million. Bank, whereas Barclays Capital’s estimate was reduced from 190 to 120 million EU allowances., PointCarbon sees the allowance price at 35 Euro in 2012, while Barclays reduced its forecast to 17 Euro. Indications for the falling shortfall are numerous – e.g. German machinery industry orders fell by half in the last 12 months. Point Carbon predicts primary CER volumes generated by CDM projects to fall 45% in 2009 to 300 million.
- Despite earlier hesitations (see last issue), the Czech Republic has sold 40 million AAUs to Japan, whereas Ukraine sold 30 million
- The Norwegian government wants to buy 30-35 million primary CERsm
- The Luxemburg government intends to buy about 10 million CERs before 2012
- The Finnish government is closing its CER acquisition programme Finnder after reaching the target level of 4 million CERs
- The Japanese export credit insurance agency NEXI offers an insurance covering up to 15 billion Euro worth of CDM investments, including ERPA’s from Japanese companies. Coverage can reach up to 100%.

- The mandatory emissions trading scheme of the city of Tokyo does not allow the use of CERs or ERUs.
- Global financing for renewable energy has fallen by half within the last 6 months according to a survey by New Energy Finance
- The Nigerian government has moved its target to phase out gas flaring from end of this year. This might make it easier for CDM projects related to gas flaring reduction to be registered
- CDM projects will be eligible for the South African renewable electricity feed-in tariff
- The Indian Income Tax department has assessed 200 Indian companies with revenues from CER sales and found that 98% of them have not paid the income tax due.
- After a lag of 5 years, the environmental NGOs have resuscitated CDM Watch, which will critically assess new CDM projects coming into the pipeline. It will be administered by Eva Filzmoser from Bonn who can be contacted at [eva.filzmoser@forumue.de](mailto:eva.filzmoser@forumue.de).
- The programme Cascade has selected four bioenergy projects in Africa for PDD support by French consultancy ONF International. Another 9 projects receive support for elaboration of PINs.
- A Caribbean Hotel Energy Efficiency Action Programme will start in Barbados and aims at development of CDM projects
- The EU Parliament has called for the acceptance of forestry credits in the EU ETS in a non-binding motion.
- Pakistan has announced the target of 100 registered CDM projects, when signing a MoU with Norway
- Regarding post-2012 negotiations
  - The EU Commission is now proposing a "sectoral crediting mechanism" to replace the CDM, without specifying its details. EU finance ministers were unable to write a cheque for developing countries, which led UNFCCC Secretary Yvo de Boer to state that the EU reneged on the Bali Action Plan

#### Web news and downloads of the month

- Four background papers of the Climate Strategies research project on the future of the CDM are available
  - Subsidies for CDM: past experiences with capacity building, download at <http://www.climatestrategies.org/our-research/category/39/132.html>
  - Would preferential access to the EU ETS be sufficient to overcome current barriers to CDM projects in LDCs?, download at <http://www.climatestrategies.org/our-research/category/39/133.html>
  - Discounting of CERs to avoid CER import cCaps, download at <http://www.climatestrategies.org/our-research/category/39/135.html>
  - The impact of CER discounting on the competitiveness of different CDM host countries, download at <http://www.climatestrategies.org/our-research/category/39/137.html>
  - Additionality in the Clean Development Mechanism: Why and what?, download at <http://www.oxfordenergy.org/pdfs/EV44>
- An overall evaluation of the project-based mechanisms done by the UK Carbon Trust is available at <http://www.carbontrust.co.uk/publications/publicationdetail.htm?productid=CTC748> (requires registration, which is free of charge)
- Greenpeace discusses the impact of including avoided deforestation in the carbon market and calls for leaving at out, download at <http://www.greenpeace.org/raw/content/international/press/reports/REDD-implications.pdf>
- A study on CDM in Africa is available at [www.africapartnershipforum.org/dataoecd/40/15/41646964.pdf](http://www.africapartnershipforum.org/dataoecd/40/15/41646964.pdf)
- Meth panel member Lambert Schneider discusses CDM reform at [http://air-climate.eionet.europa.eu/docs//ETCACC\\_TP\\_2008\\_15\\_future\\_CDM.pdf](http://air-climate.eionet.europa.eu/docs//ETCACC_TP_2008_15_future_CDM.pdf)
- The attack against the CDM in US and UK media continues. A fiery exchange between EcoSecurities' Mark Stuart and US NGO EDF's Fred Krupp (who said that the CDM "is clearly broken") on the merits of the CDM is available at <http://www.cleantechblog.com/2009/03/open-letter-to-fred-krupp.html>. At the same time, The New York Times asks "Is the Clean Development Mechanism slumping toward extinction?", download at <http://www.nytimes.com/cwire/2009/03/20/climatewire-is-the-clean-development-mechanism-slumping--10224.html> The news agency Bloomberg discusses why the "Clampdown on 'Easy' Chinese Carbon Deals to Cost RWE", download at <http://www.bloomberg.com/apps/news?pid=20601109&sid=a6d8cFe.XkIM&refer=home> Finally, US economist Nordhaus told a conference in Copenhagen that "the CDM produces highly opaque in-

- Y. Huang and T. Barker analyze the geographic distribution of CDM projects and the long-run impacts of CDM projects on CO<sub>2</sub> emissions for 34 CDM host countries over 1990-2007 using econometric methods Download at [http://www.tyndall.ac.uk/publications/working\\_papers/twp131.pdf](http://www.tyndall.ac.uk/publications/working_papers/twp131.pdf) and ...twp130.pdf, respectively
- Presentations from a CASCADE workshop on CDM in West Africa are available at: [http://www.erm.com/extranet/UK/infopool.nsf/HTML/senegal\\_publications](http://www.erm.com/extranet/UK/infopool.nsf/HTML/senegal_publications)
- IGES' "CDM in charts" is now downloadable in its seventh version at <http://www.iges.or.jp/en/cdm/report.html>
- By the end of March, 201 buyers (+7) from 34 countries (+1), 265 (+12) sellers from 57 countries (+0) and 548 service providers (+11) from 61 countries (+0) had listings on CDM Bazaar. India leads the list of service providers with 128 entries, followed by the UK with 53, US with 49, China with 48 and Brazil with 30. 52 projects (+2) have been posted by sellers.

### **GTZ CDM capacity development**

- In early March, three capacity development workshops with participants from Senegal, Mali, Benin, Rwanda and Burkina Faso supported by the GTZ on behalf of German Federal Ministry of Economic cooperation and Development were held in West Africa. The workshops focused on bio-power plants using agricultural residues, wind power and efficient stoves.

### **Other news**

- Attendance at the Carbon Markets Insights fair reached 1200, a fall of 25% compared to 2008.
- Reuters is doing a survey of the salary situation in the carbon market community. Every respondent to the online survey at <http://www.carbonsalariesurvey.com> will get a free copy of the survey.
- Several universities are starting carbon market courses. The University of Edinburgh masters course on carbon management starts in the fall term. The University of East Anglia's Norwich Business School offers a MBA in strategic carbon management.
- German DEG from KfW group and DOE TÜV Rheinland are organizing a one day workshop on "Understanding CDM Business opportunities in Vietnam" at May 12th in Hanoi and May 14th in HoChiMinh City, Vietnam. Further information contact: Ms. Le Thi Bao Ngoc, Carbon Center Manager, Email: [ngoc.le@rcee.org.vn](mailto:ngoc.le@rcee.org.vn)

### **Country of the month: USA**

While they are not contemplating a ratification of the Kyoto Protocol, the USA are quickly becoming a serious player in global climate policy and start to influence design of the CDM. March brought two high profile confirmations of this leadership. The first delegation of the Obama administration participated in the climate intersessional negotiations in Bonn in late March. Many seasoned and highly skilled negotiators of the Clinton administration are included, for example Jonathan Pershing as vice "special climate envoy". In their opening statement, the US highlighted the urgency of addressing climate change, and stressed links between sustainable development and the transformation to a low carbon economy. It also recognized the unique position of the US as the largest historical emitter of greenhouse gases. In perfect timing, a unified energy and climate bill "American Clean Energy and Security Act 2009" was unveiled by Congress members Waxman and Markey (download at: [http://energycommerce.house.gov/Press\\_111/20090331/acesa\\_discussiondraft.pdf](http://energycommerce.house.gov/Press_111/20090331/acesa_discussiondraft.pdf)). This bill includes several key messages for the CDM community:

- 85% of US greenhouse gas emissions are to be covered by an emissions trading programme
- Up to 1 billion international offsets are allowed into the US annually
- Offsets will be discounted by 20%
- A special import quota for up to 700 million avoided deforestation offsets
- Offset quality will be checked by an "Offsets Integrity Advisory Board"

With such a programme which is more open towards the CDM than most observers thought possible, the US would immediately dwarf the EU ETS as key demand centre for CERs and increase the CDM market by an order of magnitude. But now the hour of the lobbyists has come and the bill will surely see many changes before it enters into law. Especially overcoming the obstacle of 60 votes in the Senate will become challenging and requires concerted action by all supporters of the carbon markets.

## Number of the month

15: increase in number of accredited verifiers

### CDM counter (as of March 31, 2009)

- Pending large-scale baseline methodologies: 23
  - of which forestry: 1
- Pending small-scale baseline methodologies: 13
- Approved and published large-scale baseline methodologies: 88 (including 14 consolidated ones)
  - of which forestry: 11 (including 2 consolidated ones)
- Approved and published small-scale baseline methodologies: 46
  - of which forestry: 5
- Notified DNAs: 137 (110 host countries, 27 buyer countries)
- Companies applying to become operational entity: 7
- Accredited operational entities: 26
  - Of which 22 for verification
  - 2 DOEs have withdrawn
  - 0 DOEs are suspended
- Projects currently open for public comments on PDD: 126
  - Of which 0 is a PoA
- Projects that are undergoing and have undergone the public comment period: 3244
  - Of which 27 have applied for registration since the end of the last month
  - Of which 42 are in the period where a request for review can be launched
  - Of which 111 are under completeness check
    - for 8 of which a request for review has been launched
  - Of which 119 have to make corrections
  - Of which 34 are undergoing review
  - Of which 104 have been rejected
  - Of which 25 have officially been withdrawn
  - Of which 8 are PoAs
  - Of which 90 apply for the Gold Standard
- Expected CERs until 2012 from those projects: 1479 million
  - Of which 42 million from those that officially applied for registration
    - Of those 11 million from projects with request for review
  - Of which 109 million from projects that need to make corrections
  - Of which 13.6 million from those undergoing review
  - Of which 68.1 million from rejected ones
  - Of which 8.5 million from withdrawn ones
- Registered projects: 1540
  - expecting 1586 million CERs by 2012
  - Of which 0 are PoAs
  - Of which 10 fulfil the Gold Standard
  - Host countries: 55
  - Buyer countries: 14
- Issued CERs: 272 million
  - Projects with issued CERs: 489
  - Of which 4 Gold Standard projects
  - Rejected requests for issuance: 9 (0.2 million CERs)
  - Withdrawn requests for issuance: 14 (1.2 million CERs)

- CER price: 6-8 Euro for high quality post-2012 vintages, 5-7 Euro for medium-risk forwards, 7-8 Euro for low-risk forwards, 8-9 Euro for registered projects, 10-11 Euro for issued CERs, 10.45 Euro BlueNext spot price on Reuters. The market for primary CERs is slowly thawing.

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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)

Authors: Axel Michaelowa, Perspectives GmbH and Anja Wucke, GTZ