

CDM Highlights 76

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Editorial

Dear reader!

Cold autumn winds scour the CDM market with the suspension of SGS and the EU Commission's ability to determine EU allowance allocation crippled by the European Court. Also on the negotiation front, the mood has deteriorated with the US trade and cap bill seen as having only slight chances in the Senate. However, the EU sees an upscaling of credit sales from developing countries by one magnitude in the post-2012 regime, even if it still sticks to its demand to replace the CDM by a sectoral crediting mechanism.

Anja Wucke, GTZ and Axel Michaelowa, Perspectives

UNFCCC, EB and its panels

- In an unprecedented step, the UNFCCC Secretariat limited accreditations for the Bangkok negotiation round due to overcrowding of the venue. Copenhagen will see more overcrowding, 540 applications for side events were submitted.
- The EB met for its 49th meeting on September 12-14. It took the following decisions:
 - SGS has been suspended due to lack of competence of staff. As SGS is the market leader in verification, this could have a serious impact on issuance of CERs.
 - A grading system for DOE non-compliance was agreed, with three grades A, B, C.: Grade A is used for "isolated non-compliance issues with low and limited impact on the results of validation or verification" while Grade B raises doubts about the DOE's validation and verification system, with a major impact on the results of validation and verification or a minor impact on the credibility of the CDM process. Finally, Grade C is used if the credibility of the whole CDM process is threatened. Depending on the category of problems, the lower grades will be reached quickly or slowly.
 - Reviews of the Validation and Verification Manual are due every 6 months, with the first one to be done in December 2009. The EB can revise the VVM more often, if it thinks this is necessary
 - The Meth Panel shall work with methodology and project developers to improve existing methodologies regarding objectivity, applicability, usability and consistency.
 - In the registration process, deviations from a methodology can be decided within two months including completeness check and just by the EB chair, unless an EB member requests treatment by the whole EB. Deviations from a methodology at issuance takes 2 ½ months whereas for revision of a monitoring plan, the timeline for completeness check has not been defined; from there the timeline is 1 ¾ months. If the Secretariat can keep these timelines, a significant acceleration would be achieved
 - Projects which during their gestation period did not do any CDM-related activity for an interval of less than 2 years are deemed to have considered the CDM, while an interval of more than 3 years with no CDM evidence leads to rejection.
 - Out of 32 Requests for Review for registration, 15 projects will be reviewed. Reviews include 8 waste heat recovery and 4 wind projects.
 - Out of 31 projects under review, 3 Chinese projects were registered immediately as problems with the investment test were not seen to lead to non-additionality. 25 projects have to make corrections. The first large gas pipeline leak reduction project apparently does not face serious obstacles. Two Chinese gas power plants have to provide more evidence for serious consideration.
 - 6 projects were rejected, of which 3 after corrections – 4 waste heat recovery (3 in China, 1 in India), and one hydro and waste incineration project (both from China). All rejections were due to additionality problems.

- While no Chinese wind power project under review has been rejected, the issue of tariff reduction due to availability of CDM revenues is still simmering, because the EB might see tariff reduction as a policy that increases emissions, as long as it is not justified by decreases in investment costs for wind plants
- Out of 12 Requests for Review for issuance, 3 projects will be reviewed: one hydro for 70% over performance, a LFG project due to wrong grid emissions factor and a biomass power project due to problems with the moisture content of the biomass.
- Of the 2 reviews of issuance, both issuances were granted
- The EB still has to deal with the following topics:
 - Common practice test definition and first of its kind barrier. Due to the hardened positions, no new deadline has been set and a compromise shall be elaborated by a “contact group”. The question of baseline penetration rates for efficiency projects has now been lumped together with the former two questions.
 - Materiality and calibration frequency of measurement equipment.
- The Meth Panel met for its 40th meeting on September 14-18. It makes the following recommendations to the EB
 - Approval of a methodology for public transport (bus or rail) projects, which is somewhat simpler than the existing transport methodology AM 31 inasmuch it allows to exclude subsidies for setup of the infrastructure and does not require a life-cycle assessment of emissions. In parallel, AM 31 would be expanded to electric rail systems and allow biofuel use in the baseline.
 - Rejection of eight methodologies (three on electricity grid connection, one each on SF6 in transformers, coal- to biomass switch in stoves, solar water heaters, greenfield fossil power plants and raw material production for steel plants)
 - A standardization of the barrier test is proposed that reduces gaming options. Any financial barrier as well as barrier related to increased technology risk should be assessed by investment analysis. If lack of access to capital, technologies and skilled labour is invoked, the assessment shall take into account the type of project developer, with a view to be more stringent in the case of multinational or large companies. Moreover, lenders have to show that they provided the loan only due to the availability of CER revenue. Projects in LDCs would be exempt from the new rules.
 - For blended cement projects, automatic additionality is proposed if the share of blended cement in the host country prior to project start is less than 5%.
 - Another attempt to broaden the applicability of biodiesel methodology AM 47 is made.
 - Off-grid electricity generation capacity can be included in calculating the grid emission factor if total off-grid capacity or total off-grid power generation is at least 10% of total grid capacity or grid-connected power generation.
 - Default technical lifetimes are proposed for different equipment classes. Air conditioning systems are set at 15 years, boilers, steam turbines and onshore wind plants at 25 years. For peak load equipment, life is specified in operation hours – ranging from 50,000 for diesel generators to 200,000 for gas turbines above 50 MW. Compared to actual life of equipment in industrialized countries, these lifetimes are generous. Alternatively, an expert evaluation or the manufacturer's specification could be used.
 - Alleviations to the gas pipeline leak repair methodology AM 23 are proposed that would simplify monitoring to a large extent.

Baseline methodologies

- In the 30th round, five methodologies were submitted. The most interesting one is changing the modal split of transport, while others cover HFC collection from to be disposed vehicle air conditioners, gas power plants, CO2 use from ammonia production and low carbon intensity fertilizer production.
- Two small-scale methodologies for methane reduction in refineries and change from railway to pipeline transport were submitted.

Designated Operational Entities

- The Indian Council of Forestry Research and Education submitted its application
- DNV does not validate PoAs as it still sees the liability risks as being too high

Designated National Authorities

- Eritrea has notified its DNA

- The DNA approval hitlist stands at
 - China: 2174 projects (+0).
 - India: 1455 projects (+32).
 - Brazil: 217 projects (+6)
 - Indonesia: 104 projects (+14). The new projects include 4 palm oil mill methane avoidance, 3 biopower, 2 landfill gas and 1 hydro, geothermal, gas flaring reduction, fuel switch and gas power plant project each
 - Vietnam: 100 projects (+2). 1 large hydro plant and a waste heat recovery project estimate 0.7 million CERs p.a..
 - Thailand: 90 projects (+4). The new projects include 2 biopower and 2 wastewater projects. Annual CER volume is estimated at 0.2 million.
 - Philippines: 64 projects (+0).
 - Colombia: 39 projects (+0)
 - Peru: 34 projects (+0)
 - Israel: 30 projects (+0)
 - Argentina: 26 projects (+0).

Project developers and consultants

- The submission of new projects remained stable at 102. One large new project entered the pipeline
 - Gas power plant 1170 MW (China, 4.8 million CERs by 2012)
- The first PoA for distribution of energy efficient lamps in Mexico was registered.
- The Anglo African Energy Group (AAEG), a project developer focusing on forestry projects in Sub-Saharan Africa, is ramping up its operations with the opening of a Washington office and hiring the former head of Credit Suisse's carbon trading desk to market voluntary and compliance forestry credits from New York. At a launch event in Lomé, AAEG announced that over the next 12 months plans they want generate 400 million REDD credits on 15 to 20 million hectares. It remains to be seen whether these grandiose plans are realistic. Given that AAEG president Solomon is tainted with shady business deals in the past (see an account of his tumultuous past in French language at <http://www.bakchich.info/article2031.html>) African countries should have second thoughts about his approaches.
- A Mumbai landfill is fully sanitized by the upfront payment of 3.7 million Euro for CER sold to ADB from landfill gas collection and flaring. The total CER revenue is estimated at 10 million Euro, 117% of the investment cost.
- Kenyan CDM consultants state that there is no shortage of demand from western businesses looking for gold standard CERs in Africa, but a major dearth of viable projects coming on stream.
- German utility EnBW is searching for partners to set up twelve 10 MW biomass power plants in Thailand. Contrary to most industrialized country CER buyers, EnBW is willing to provide equity financing
- US utility AES has tried in vain to sell its ailing subsidiary AES AgriVerde, which was set up in April 2006 to develop biogas plants in agricultural production units as CDM projects. Instead of the targeted 270 projects, only 10 have materialized.
- Camco has generated a loss of 6.6 million Euro in the first half of 2009. Its CER generation costs remain stable at about 8 Euro per CER. Camco has stopped to source new CDM projects due to the post-2012 uncertainty. To diversify its business, it wants to set up an investment arm for renewable energy projects.
- JP Morgan has bid against Pedro Moura Costa for the control of EcoSecurities, offering 1.05 £ per share, i.e. a total of 140 million Euro. The offer has been welcomed by EcoSecurities' management.
- IdeaCarbon estimates CER issuance in 2009 at 118-135 million, to double next year. It assumes that many project developers do not submit issuance requests due to the low CER price. Société Générale estimates total CER supply before 2013 at 1.3 billion

Incentives for CDM investment

- Poland's and Estonia' victorious challenge of the EU Commission's downscaling of their National Allocation Plan at the European Court has thrown the EU ETS market into disarray and led to a slump in EU allowance prices. Essentially, the court found that the Commission does not have the competence to specify allocation volumes. EU allowances ended the month at 13.4 Euro for the spot market and 15 Euro for 2012 vintages. The spread to issued CERs has remained decreased at 1.3 Euro. Societe Generale estimates EU allowance surplus in 2008-12 at 136 million. The International Air Transport Association (IATA) proposes an alternative to the EU aviation emissions

trading system coverage with a target at 2005 emission levels until 2020 and reduction by half until 2050.

- The long-awaited US senate bill dubbed “Clean Energy Jobs and American Power Act” has been unveiled by senators Kerry and Boxer. While retaining many elements of the Waxman-Markey bill regarding quality control of international offset imports, it would reduce the import cap to 0.5 billion t, which might be increased to 1.25 billion in case of lack of domestic offsets. If allowance prices reaching 28 \$ for two consecutive years, further types of offsets can be introduced.
- ADB extends a 500 million Euro energy efficiency loan to Pakistan to support a 10 year energy efficiency programme of 800 million Euro, including energy efficient lighting programme.
- The Indian Banks’ Association asks the Reserve Bank of India to classify loans to CDM project developers as priority sector lending to enable banks to reduce interest rates on such loans. While several banks such as SBI, IDBI Bank and Canara Bank have set up CDM desks, the amount of loan financing remains limited.
- Only 3 out of 64 banks in advanced developing countries answering a questionnaire by German development bank DEG are involved in CDM.
- A Thai Carbon Fund for investment in CDM projects is scheduled to be set up by early 2010, aiming at a volume of 10-20 million Euro.
- New Zealand’s government plans amendments to the emissions trading bill which essentially make it toothless. In a transitional period between 2010 and 2013, covered companies need only to surrender 50% of their allowances, and a price cap of 12.5 Euro. Industry would only be subject to an intensity target. Coverage of agriculture would be postponed to 2015.
- In August 2009 according to Environmental Finance, the budget of carbon funds stood at 10.7 billion Euro, with the number of active fund reaching 88.
- Denmark has increased its CER acquisition budget by 37 million Euro.
- The first ERU exchange-based trade was done on Dutch exchange Climex
- The Czech Republic has sold 20 million AAUs to Japanese trading company Mitsui
- Regarding post-2012 negotiations
 - The new Japanese government has proposed a 25% reduction target for 2020 compared to 1990.
 - Diverse pre-Copenhagen summit meetings did not provide any tangible results, except a statement by Chinese Premier Hu Jintao to be willing to reduce China’s carbon intensity.
 - The EU is aiming at a carbon market size of 40 billion Euro by 2020 (see web news below)
 - The Prince of Wales Corporate Leaders Group proposes CDM reform towards a “wholesale mechanism” on the basis of internationally adopted sustainability criteria
 - The Indian minister of environment praised the CDM and argued in favour of extending it to earmark revenues for the Least Developed Countries.
 - The regional South Asian organization for regional Cooperation SAARC strongly supports the CDM

Web news and downloads of the month

- The EU paper on financing for developing country mitigation can be downloaded at http://ec.europa.eu/environment/climat/pdf/future_action/com_2009_475.pdf, with the background paper at http://ec.europa.eu/environment/climat/pdf/future_action/sec_2009_1172.pdf
- Left-wing UK think tank Cornerhouse has published a comparison of sub-prime trading with carbon trading at <http://www.thecornerhouse.org.uk/pdf/briefing/40poisonmarkets.pdf>, a general critique of carbon markets as “last great class project of a waning neoliberal regime” at <http://www.thecornerhouse.org.uk/pdf/document/Neolib&Calc.pdf> and corruption in carbon markets at <http://www.thecornerhouse.org.uk/pdf/document/Athens%2010.pdf>
- Indian NGOs have collected a number of unsettling case studies where CDM projects fail to generate the development benefits listed in their PDDs. See <http://www.thecornerhouse.org.uk/pdf/document/Mausam2-5.pdf>
- A very interesting French language blog on CDM in Sub-Saharan Africa can be found at <http://rdccarbone.afrikblog.com/>
- A paper on how developing countries can influence the design of post-2012 CDM is available at <http://www.cd4cdm.org/Publications/DestructionWoRepresentationPostKyotoCDM.pdf>
- A detailed guide on financing of coal mine methane projects is available at http://www.epa.gov/cmop/docs/finance_guide.pdf
- CDM volume estimates in phase 2 and phase 3 of the EU ETS are available in http://www.ecofys.com/com/publications/gate.asp?fn=documents/Ecofys_EUclimatepolicyimpactin2020_new.pdf

- An IEA publication on methane reduction from energy use is available at http://www.iea.org/textbase/papers/2009/methane_brochure.pdf
- FOE has recycled its arguments against the CDM to influence the US Senate: http://www.foe.org/sites/default/files/A_Dangerous_Distraction_US.pdf
- A pungent critique of current CDM and reform proposals by Cameron Hepburn (University of Oxford) are available at http://www.smithschool.ox.ac.uk/__data/assets/pdf_file/0006/10599/Hepburn_CDM_with_cover_online.pdf
- By the end of September, 225 buyers (+2) from 35 countries (+0), 293 (+2) sellers from 62 countries (+2) and 627 service providers (+8) from 61 countries (+0) had listings on CDM Bazaar. India leads the list of service providers with 149 entries, followed by the UK with 60, US with 55, China with 51 and Brazil with 35. 56 projects and project ideas (+1) have been posted by sellers.

Other news

- The UNFCCC Secretariat calls for photos illustrating how registered CDM projects contribute to creation of new jobs, the greening of industry, or the development of rural services and infrastructure. Submissions are due by October 31.
- Botswana Innovation Hub and Lund University are organising a CDM and low-carbon technology workshop in Botswana on Nov. 4-5. For details, see <http://www.bih.co.bw/events.php?id=34>
- The second largest carbon market fair in the world - Carbon Markets Insights - will be held March 2-4, 2010, in Amsterdam
- The Second Methane to Markets Partnership Expo will be held in New Delhi on March 2 - 5, 2010

Country of the month: Tanzania

Tanzania has been focus of intense CDM capacity building efforts by UNEP (CD4CDM), Austria, Denmark, Finland and Sweden, but like most Sub-Saharan African countries has faced difficulties in mobilizing a project pipeline. The DNA was set up in late 2004 and its head Richard Muyungi was EB member from 2005 to 2007. The DNA operates a well-structured website at <http://www.dnatanzania.go.tz/>, including templates for all relevant approval requests and the grid base-line emissions factor, which reaches 500 g CO₂/kWh. The DNA requires a PIN for a check of sustainability criteria, such as employment generation and foreign investment. This check is taken seriously and project proposals have been rejected. Once a letter of no objection is issued, the PDD can be submitted. The DNA charges a tax of at least 2.5% of CER volumes up-front, which is seen as a substantial obstacle by project developers.

There are substantial renewable energy resources, with 4.7 GW of hydropower potential as well as biomass and geothermal. Donors are supporting rural electrification through a Rural Energy Fund, which would lend itself to a PoA. Forestry is also seen as an attractive option, as substantial experiences with projects on the voluntary market exist. A pipeline of 14 projects is available on the DNA website. A landfill project has been registered (1.1 million CERs by 2012), while 4 projects (1 million CERs, hydro, biopower, fuel switch and reforestation) are at validation. Three local consultancy-NGOs, CEEEST, EPMS and TaTEDO as well as offices of Camco and Norwegian forestry company Green Resources offer CDM services.

Number of the month

- 100 approved projects: threshold reached by both Indonesia and Vietnam, making South East Asia the currently most dynamic CDM region.

CDM counter (as of September 30, 2009)

- Pending large-scale baseline methodologies: 40
 - of which forestry: 2
- Pending small-scale baseline methodologies: 12
- Approved and published large-scale baseline methodologies: 92 (including 14 consolidated ones)
 - of which forestry: 11 (including 2 consolidated ones)

- Approved and published small-scale baseline methodologies: 52
 - of which forestry: 6
- Notified DNAs: 143 (116 host countries, 27 buyer countries)
- Companies applying to become operational entity: 15
- Accredited operational entities: 25
 - Of which 22 for verification
 - 2 DOEs have withdrawn
 - 1 DOE is suspended
- Projects currently open for public comments on PDD: 108
 - Of which 1 are a PoA
- Projects in the validation phase: 2843
 - Of which 51 have applied for registration since the end of the last month
 - Of which 69 are in the period where a request for review can be launched
 - Of which 206 are under completeness check
 - for 56 of which a request for review has been launched
 - Of which 95 have to make corrections
 - Of which 13 are undergoing review
 - Of which 14 are PoAs
 - Of which 102 apply for the Gold Standard
- Expected CERs until 2012 from projects at validation: 1101 million
 - Of which 49.4 million from those that officially applied for registration
 - Of those 20.1 million from projects with request for review
 - Of which 44.6 million from projects that need to make corrections
 - Of which 8.8 million from those undergoing review
- Projects that failed during validation: 743
 - Of which 122 have been rejected by the EB
 - Of which 40 have officially been withdrawn
 - Of which 138 got a negative validation report
 - Of which 443 dropped out of validation
- CER estimates until 2012 from projects failed before registration: 358 million
 - Of which 74.5 million from EB-rejected ones
 - Of which 16.5 million from withdrawn ones
 - Of which 65.2 million from validator-rejected ones
 - Of which 192 million from projects that dropped out of validation
- Registered projects: 1834
 - expecting 1685 million CERs by 2012
 - Of which 1 is a PoA
 - Of which 15 fulfil the Gold Standard
 - Host countries: 57
 - Buyer countries: 16
- Issued CERs: 333 million
 - Projects with issued CERs: 566
 - Of which 5 Gold Standard projects
 - Rejected and not resubmitted requests for issuance: 9 (0.2 million CERs)
 - Withdrawn and not resubmitted requests for issuance requests: 17 (1.1 million CERs)
- CER price: 6-7 Euro for high quality post-2012 vintages, 5-7 Euro for medium-risk forwards, 8-9 Euro for low-risk forwards, 10-11 Euro for registered projects, 12-13 Euro for issued CERs, 12.1 Euro BlueNext spot price on Reuters.

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Imprint

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