

## CDM Highlights 73

July 2009

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!

It is takeover time in the CDM project developer scene. Ailing companies are taken over and even bidding wars erupt, showing that observers think companies are undervalued. With the U.S. cap and trade bill having passed the first barrier, the perspective for the global CDM market brightens up, especially as the competing sectoral approaches do not gather a lot of enthusiastic support. However, the project pipeline shows new signs of exhaustion, such as low issuance and registration request rates.

Anja Wucke, GTZ and Axel Michaelowa, Perspectives

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### UNFCCC, EB and its panels

- At the Bonn negotiations, CDM reform and reform of the mechanisms in general took a back seat. Focus was on target negotiations, with industrialized countries unable to agree on the -25 – 40% range. Summed up, the targets proposed so far give a range of -16% - 24%. The next meetings now have the arduous task of whittling down the 200 page negotiation text to a workable agreement.
- In May, Micronesia and Mauritius proposed an amendment to the Montreal Protocol which would allow it to regulate and phase-out HFCs, echoing an EU submission in the UNFCCC negotiations. This is heavily opposed by India. The U.S. has not yet decided whether to support the amendment but seems sympathetic.
- The Small-Scale Working Group met on June 16-19 and proposed the following
  - Approval of a methodology for energy efficiency in new residential building, including calibrated computer simulation modeling and regression analysis
  - Rejection of three methodologies for efficient biogas flaring, energy efficiency improvement in large metal producing units and reduction in vehicle utilization

### Designated Operational Entities

- CEPREI certification body from China submitted its application for accreditation as DOE.

### Designated National Authorities

- Turkmenistan notified its DNA.
- The host countries have started to become active again after last month's lull. The DNA approval hitlist stands at
  - China: 2062 projects (+39). The new approvals include 10 wind, 9 hydro, 8 waste heat recovery, 2 wastewater and waste incineration and 1 biofuel, biomass power, coal mine methane, composting, district heating and stove efficiency project each. Total annual CER volume is estimated at 5.5 million. The Chinese DNA has responded to the increasing reviews of wind projects with two documents describing that tariff levels mentioned in feasibility studies are only indicative and thus not relevant and that losses in wind power production compared to the theoretical annual power generation can easily reach 20-45%. NDRC's Gao Guangsheng stated that China's CDM projects created economic costs, thus refuting allegations of non-additionality of many Chinese projects.

- India: 1309 projects (+84). Renewable energy project developers oppose the electricity regulator's proposal to implicitly tax CERs through the tariff regulation (see last issue).
- Brazil: 210 projects (+1)
- Mexico: 189 projects (+0).
- Vietnam: 92 projects (+0).
- Indonesia: 90 projects (+0).
- Thailand: 75 projects (+15). The new projects include 9 wastewater, 4 waste heat recovery and 1 biopower and power plant retrofit each. Annual CER volume is estimated at 0.8 million. The Thai DNA will introduce a national "Crown Standard" for projects with strong sustainability benefits.
- Philippines: 64 projects (+9). One hydropower, biopower, wastewater and nitric acid project each have been approved. Information on the other five projects approved sometimes in the last 12 months is unfortunately not available. The Philippines have clarified that CER revenues are tax free.
- Colombia: 39 projects (+0)
- Peru: 34 projects (+10), of which 5 hydro, 2 fuel switch and one waste, energy efficiency and electricity grid connection each, with an annual volume of 1.9 million CERs.
- Israel: 30 projects (+8)
- Argentina: 24 projects (+0)
- Given the patchy frequency of updates by investor country DNAs on their approvals, the investor country hitlist is discontinued until the situation improves significantly.

### **Project developers and consultants**

- The submission of new projects fell to 96. Only one large new project entered the pipeline
  - Hydropower 280 MW (Vietnam, 2.8 million CERs by 2012)
- The first PoA (energy efficient lighting in Mexico) submitted for registration has got a request for review, albeit on relatively minor issues. Dutch utility Eneco, which has bought climate policy consultants Ecofys is acquiring up to 7.5 million CERs from this PoA.
- Former director Pedro Moura Costa (see last issue) and EDF Trading engage in a strong bidding for Ecoscurities. Moura Costa, who holds 12% of the shares, launched a bid of 60 pence per share, which was countered by EDF Trading at the level of 75 pence. Ecoscurities management rejected the latter bid. Share prices almost doubled as a result of the bidding.
- After the bankruptcy of its mother Econcern, CDM developer OneCarbon has been bought by Orbeo. This move aims to broaden Orbeo's portfolio hitherto dominated by large N<sub>2</sub>O reduction projects.
- Dow Chemical has partnered with Gazprom for CDM and JI project development.
- First Climate is trying to finance a bundle of 14 biomass power plants in India totalling 170 MW for 120-130 million Euro through a combination of third party equity and senior debt from domestic and foreign banks.
- South Pole bought a minority stake in the Vietnamese project developer VNEEC from Perspectives, which had to divest to void a conflict of interest after its recent acquisition by PointCarbon
- The head of a ragpickers' union in the Indian city of Pune argues that CDM projects threaten the livelihood of ragpickers. A CDM refuse derived fuel plant in the Pune landfill has reduced her earnings by more than half. She proposes to limit CDM projects in the waste sector to compost and biogas, with the recyclable waste given to the ragpickers.
- The Kuyasa housing efficiency project in Cape Town, South Africa, which has been showcased as ideal project due to high sustainability benefits, is now seriously moving forward. After having been stalled for several years, now more than 1200 houses have their electrical geysers replaced with solar water heaters, and insulated ceilings and energy-efficient light bulbs installed. The project provides 76 jobs. Up until very recently all the solar water heaters used in the project have been imported from China. But now the locally manufactured Xstream solar water heater is available at a cost which rivals the Chinese Genergy heater. The buy-in from residents was such that the site office had no security guard or alarm. If anything went wrong residents would phone him. Initial fears of vandalism have also proved to be completely groundless.
- The Adaptation Fund has sold a second tranche of 0.5 million CERs at 11.5 Euro.

## Incentives for CDM investment

- The U.S. cap and trade bill just managed to survive the vote in the House of Representatives with a narrow margin of 7 votes. Its target for 2020 would mean a reduction of 4% compared to 1990. In the approved version, the domestic emissions target imports of international offsets (presumably CERs or sectoral credits) are capped at 1 billion per year. If there are not sufficient domestic offsets available, imports can increase to 1.5 billion. Such a volume would definitely stretch the CDM market and might require new mechanisms such as crediting of sectoral mitigation or entire policies. From 2017, international offsets would be discounted by 20%. However, the battle to get this bill through the Senate where its needs 60% will be arduous and many changes are to be expected.
- EU allowances fell somewhat to 13.0 Euro for the spot market and 15.5 Euro for 2012 vintages. The spread to issued CERs has decreased to about 1.2 Euro, with spot deliveries trading at a premium to 2010 deliveries. Barclays Bank sees a 150 million EU allowance surplus in the EU ETS by 2012. However, the first signs of recovery of industrial production are underway.
- The Australian Senate has delayed a vote on the emissions trading scheme until August.
- KfW and Latin American CAF will collaborate on PoA development.
- Brazilian development bank BNDES will invest 30 million Euros in a CDM fund being managed by BRZ Investimentos SA and another 30 million in a fund managed by Latour Capital Group.
- 15 million AAUs from Slovakia have made a trip through the Danish and the Swiss registries to end up in the Japanese registry. They are linked to a deal heavily criticized in Slovak media (see last issue), which has now been published. It involves the sale of 50 million AAUs at 5.05 Euro each, with a premium of 1 Euro if “greened” through a Green Investment Scheme. Due to the growth of such shady AAU deals, IETA has called for a limit of banking of “hot air”.
- Given that Asian exchanges have not yet been able to break the dominance of brokered forward contracts, the Hong Kong Exchange mulls whether it should introduce a CER contract. It did the unusual step of asking for public input on this question. In a similarly unusual move, French CER trading leader BlueNext collaborates with the China-Beijing Environmental Exchange (CBEEEX) to set up an “information platform”, presumably to entice Chinese CER sellers to go for Bluenext contracts without giving away the trading know-how to the Chinese exchange.
- The French government has exempted spot trades in EU allowances and CERs from VAT due to the emergence of VAT fraud, whereas the UK will continue to levy VAT.
- We would like to clarify that Uzbekistan engages in CER revenue sharing instead of taxation of CER sales (as reported in the last issue). According to the profit-sharing agreement between Mitsubishi and Uzbek chemical company, Mitsubishi sells the CERs on behalf of the Uzbek company. The revenues will then be shared between the Uzbek company and Mitsubishi in the proportion 80:20. A part of the Uzbek share (about 30%) will be paid to the state budget. Uzbekistan does not have a special carbon regulation including taxation for carbon deals.
- From August, the Gold Standard Foundation will collect a fee of 1.5% of CERs in kind. These CERs will be sold to Sindicatum Carbon Capital, which will pay for these credits in advance
- Regarding post-2012 negotiations
  - Scotland proposes a 42% reduction target for 2020
  - Russia proposes a 10-15% reduction target for 2020, which very likely would perpetuate “hot air”
  - Japan announced a 8% reduction target for 2020, albeit without use of international offsets
  - UK prime minister Brown called for a 100 billion \$ per year fund for mitigation and adaptation in developing countries
  - A wide range of NGOs has published a draft “Copenhagen Climate Treaty”, including a global greenhouse gas budget at 1990 levels in 2020 to be reduced by 80% in 2050, and a 160 billion \$ per year grant facility for developing countries. CDM should be limited to LDCs and replaced by sectoral or policy crediting for other developing countries
  - Friends of the Earth have called for a discontinuation of the CDM
  - IETA argues for permanent crediting of forestry CDM projects and inclusion of CCS as well as positive lists for additionality determination. It is sceptical of sectoral and policy crediting (see also downloads of the month)

## Web news and downloads of the month

- The final version of the cap and trade bill passed in the US House of representatives is available at <http://thomas.loc.gov/cgi-bin/query/z?c111:h2454>. The international offsets provisions are found in section 743.

- A global survey of salaries in the carbon market is available at <http://www.acre-resources.co.uk/carbonsalarysurvey2009/...>
- Sectoral crediting has become a hot topic
  - L. Schneider and M. Cames discuss pros and cons of sectoral approaches, leaving the reader with a feeling that this will not become a panacea. Download at <http://www.oeko.de/oekodoc/904/2009-022-en.pdf>.
  - OECD assesses impacts of sectoral approaches on the carbon markets, see <http://www.oecd.org/dataoecd/8/7/42875080.pdf>, stressing the significant effort required upfront both nationally and internationally to set proper baselines, ensure adequate measurement, reporting and verification.
  - An evaluation of crediting options for the Chinese steel sector is available at [http://regserver.unfccc.int/seors/attachments/get\\_attachment?id=2930](http://regserver.unfccc.int/seors/attachments/get_attachment?id=2930)
  - PointCarbon's evaluation of sectoral approaches can be downloaded at [http://regserver.unfccc.int/seors/attachments/get\\_attachment?id=2932](http://regserver.unfccc.int/seors/attachments/get_attachment?id=2932)
- A report on contribution of the CDM to global emissions reductions through discounting, cancellation of CERs and stringent benchmarks is available at [http://regserver.unfccc.int/seors/attachments/get\\_attachment?id=2893](http://regserver.unfccc.int/seors/attachments/get_attachment?id=2893)
- A. Michaelowa, D. Hayashi and M. Marr assess challenges for energy-efficient lighting under the CDM, download (free) at <http://www.springerlink.com/content/x573724402362171/fulltext.pdf>
- German company strategies in the carbon markets are discussed in [http://www.kfw.de/DE\\_Home/Service/Download\\_Center/Allgemeine\\_Publikationen/...](http://www.kfw.de/DE_Home/Service/Download_Center/Allgemeine_Publikationen/...)
- An OECD paper on cost-effective global climate policy strategy, including CDM reform is available at [http://www.ois.oecd.org/ois/2009doc.nsf/LinkTo/NT00002E82/\\$FILE/JT03267346.PDF](http://www.ois.oecd.org/ois/2009doc.nsf/LinkTo/NT00002E82/$FILE/JT03267346.PDF) (8.5 MB!)
- Results from the Climate Strategies project on CDM reform are summarized at [http://regserver.unfccc.int/seors/attachments/get\\_attachment?id=2931](http://regserver.unfccc.int/seors/attachments/get_attachment?id=2931)
- The CDM Project Developers' Forum position papers are available at <http://www.pd-forum.net/page.php?m=6> Especially interesting is a discussion paper on materiality.
- The IETA position paper on CDM and JI reform is available at <http://www.ieta.org/ieta/www/pages/getfile.php?docID=3298>
- The FOE's attack on the CDM is available at [http://www.foe.co.uk/resource/briefing\\_notes/dangerous\\_distraction.pdf](http://www.foe.co.uk/resource/briefing_notes/dangerous_distraction.pdf)
- A modelling paper on economic and environmental impacts of the CDM is available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1409593](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1409593)
- K. Rosendahl and J. Strand assess CDM baseline manipulation from a theoretical perspective, download at <http://www-wds.worldbank.org/external/...>
- A series of presentations on post-2012 CDM markets with a focus on Thailand is available at [http://www.tgo.or.th/index.php?option=com\\_content&task=view&id=201&Itemid=34](http://www.tgo.or.th/index.php?option=com_content&task=view&id=201&Itemid=34)
- By the end of June, 212 buyers (+3) from 35 countries (+0), 285 (+7) sellers from 60 countries (+0) and 613 service providers (+26) from 61 countries (+0) had listings on CDM Bazaar. India leads the list of service providers with 146 entries, followed by the UK with 60, US with 55, China with 49 and Brazil with 32. 55 projects and project ideas (+0) have been posted by sellers.

## Other news

- In a surprise vote, Abu Dhabi's Masdar City (which envisages CDM status) became the headquarters for IRENA, the international renewable energy agency, outdistancing Bonn's bid. A major reason for Abu Dhabi's success was the announcement of a 136 million \$ grant for IRENA as well as a fund of up to 50 million \$ per year for IRENA-approved renewable energy projects in developing countries.
- In Germany, the planned carbon capture and storage (CCS) law has been delayed as conservative politicians discover "not in my backyard" syndromes. Shell's plan for a CCS site in the Netherlands under a small town suffers the same fate. This is the first sign of the challenges facing CCS with regards to public acceptance. Moreover, the US Department of Energy thinks that it will take over a decade to make CCS work on a commercial scale. The EU Commission is currently trying to raise about 0.3 billion Euro financing for a CCS demonstration plant in China through the Near Zero Emission Coal project.
- Carbon Forum Asia will be held in Singapore on October 26-27. Information is available at <http://www.carbonforumasia.com/>
- The 2nd Annual CDM Asia Pacific 2009 will be held in Beijing on Sept 8-11, see <http://www.alleventsgroup.com/cdmasia2009/>

- Indian business association FICCI hosts its India Carbon Market Conclave on Sept. 2-3 in New Delhi. Further information is available at [www.ficci.com/icmc2009](http://www.ficci.com/icmc2009)

### **Country of the month: El Salvador**

El Salvador has recently made headlines by a peaceful transition of power to a former guerillero. Likewise, in the CDM market, El Salvador has quietly gained ground. The DNA was set up in 2002 and the first CDM workshops took place in 2003. From 2003 to 2007, Finland and Canada supported CDM capacity building in the country. The DNA approval process entails six steps and should take no more than 45 days. The DNA has calculated the baseline emission factor for the electricity grid. El Salvador has a relevant potential of geothermal, hydropower and bagasse cogeneration; the open electricity market supports private project developers. Already in 2006, a pipeline of 17 projects was published (<http://www.marn.gob.sv/uploaded/content/category/885915648.pdf>), of which 8 hydro and 4 geothermal and bagasse cogeneration each. Renewable energy projects below 10 MW are tax-exempt for 10 years, projects between 10-20 MW for five years. CER revenues are generally tax-free. Two geothermal projects (1.3 million CERs by 2012), two bagasse cogeneration plants (0.7 million CERs by 2012) and one large landfill gas project (1.2 million CERs) have been registered; three hydro projects are in the validation pipeline. However, there are no domestic CDM consultants apart from the Universidad Centroamericana "José Simeón Cañas".

### **Number of the month**

94 %: share price increase of EcoSecurities due to the bidding war, within two weeks

### **CDM counter (as of June 30, 2009)**

- Pending large-scale baseline methodologies: 31
  - of which forestry: 1
- Pending small-scale baseline methodologies: 12
- Approved and published large-scale baseline methodologies: 90 (including 14 consolidated ones)
  - of which forestry: 11 (including 2 consolidated ones)
- Approved and published small-scale baseline methodologies: 51
  - of which forestry: 6
- Notified DNAs: 139 (112 host countries, 27 buyer countries)
- Companies applying to become operational entity: 13
- 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: 99
  - Of which 2 are a PoA
- Projects in the validation phase: 2780
  - Of which 35 have applied for registration since the end of the last month
  - Of which 57 are in the period where a request for review can be launched
  - Of which 188 are under completeness check
  - for 57 of which a request for review has been launched
  - Of which 66 have to make corrections
  - Of which 14 are undergoing review
  - Of which 11 are PoAs
  - Of which 96 apply for the Gold Standard

- Expected CERs until 2012 from projects at validation: 1111 million
  - Of which 65.0 million from those that officially applied for registration
    - Of those 38.0 million from projects with request for review
  - Of which 23.3 million from projects that need to make corrections
  - Of which 6.1 million from those undergoing review
- Projects that failed during validation: 622
  - Of which 112 have been rejected by the EB
  - Of which 30 have officially been withdrawn
  - Of which 119 got a negative validation report
  - Of which 361 dropped out of validation
- CER estimates until 2012 from projects failed before registration: 304 million
  - Of which 70.4 million from EB-rejected ones
  - Of which 10.8 million from withdrawn ones
  - Of which 59.2 million from validator-rejected ones
  - Of which 163.9 million from projects that dropped out of validation
- Registered projects: 1699
  - expecting 1644 million CERs by 2012
  - Of which 0 are PoAs
  - Of which 11 fulfil the Gold Standard
  - Host countries: 55
  - Buyer countries: 14
- Issued CERs: 308 million
  - Projects with issued CERs: 525
  - Of which 4 Gold Standard projects
  - Rejected requests for issuance: 10 (0.2 million CERs)
  - Withdrawn requests for issuance: 19 (1.9 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, 9-11 Euro for registered projects, 11-12 Euro for issued CERs, 11.8 Euro BlueNext spot price on Reuters..

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## Imprint

Responsible: GTZ Climate Protection Programme, a project carried out on behalf of the German Federal Ministry for Economic Cooperation and Development

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