

CDM Highlights 67

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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

Editorial

Dear reader!

There is a silver streak on the sky of the CDM market. In the last minute, the EU managed to save the 2020 climate policy package with a significantly more lenient CER/ERU import threshold than originally planned. The COP embarked on a timid reform of some problems of the CDM and told the EB to remove obstacle to PoAs, which should lead to an upswing of PoA submission in early 2009. More far-reaching reforms were stalled by the fight between industrialized and developing countries regarding expansion of the adaptation tax.

Anja Wucke, GTZ and Axel Michaelowa, Perspectives

UNFCCC, EB and its panels

- COP 14 made the following decisions on the CDM:
 - Projects from countries with less than 10 registered projects shall get special treatment. The exact nature of the support remains to be seen, it will certainly not be a direct subsidy of validation as originally proposed by LDCs. Methodology development in “underrepresented” countries is to be facilitated.
 - DOE suspensions can now be made for a subset of scopes and DOE functions
 - More default factors are to be used for small-scale energy efficiency methodologies
 - Investment testing shall be standardized and a quantitative approach to barrier testing used
 - A report on approved, but non-utilized methodologies is to be written, which will highlight the problems in their application
 - The eligibility of Carbon Capture and Storage CCS, new HCFC-22 capacity, and forest plantations likely to be discontinued under business-as-usual led to stormy debates and will not be decided before Copenhagen
 - The EB shall
 - finalize reforms to “swiftly overcome the identified barriers” to PoAs, especially regarding DOE liability and use of several baseline methodologies in case of small-scale CDM programme activities
 - set timelines for decisions on methodology revisions and deviations from methodologies, as well as on approval of monitoring plan revisions
 - not apply guidance retroactively
 - speed up completeness checks
 - assess the importance of materiality and level of assurance in the context of the VVM
 - The EB can
 - recover costs from DOEs if projects are rejected, in the case of “repeated non-compliance”. This would be a new penalty for incompetent DOE behaviour.
 - New EB members come from Norway (Peer Stiansen) and the EU Commission (Thomas Bernheim, alternate). Pakistan is represented with Momin Agha. Otherwise, familiar faces are “recycled” – among others RK Sethi (India), José Miguez (Brazil), Martin Hession (UK), Kamel Djemouai (Algeria), and Akihiro Kuroki (Japan)
- The following items were agreed, but finally dropped due to the link with expansion of the adaptation tax. They are likely to be put on the agenda at the next meeting
 - appeal against rejections of projects and issuances
 - increased role of the UNFCCC Secretariat in decisions on specific projects
 - development of a code of conduct for EB members to clarify rules to prevent conflict of interest

- At a side event, EB chair Sethi stressed that the internal rate of return (IRR) is a better measure for additionality than the debt service coverage ratio (DSCR), given that DSCR ratios required by banks vary widely.
- Experts can apply for membership of the Methodology Panel, the AR Working Group and the Small-Scale Working Group until February 22. Moreover, experts for methodology consultancy regarding coal mine fires, iron and steel industries, adipic acid production, transport, SF₆, uncertainty and landfill aeration can apply until the same deadline.
- UNFCCC Secretary General Yvo de Boer defended the CDM against criticisms from the US General Accounting Office (see web news of last issue) using the words "It's not that we're printing money in the garage". He however acknowledged that "there is room for improvement and there are projects that perhaps make it through that shouldn't have...we are in a learning experience".
- The Adaptation Fund can start selling CERs

Designated National Authorities

- A new Chinese electricity grid baseline emissions factor was published on the Chinese DNA website. The build margins for the Northern provinces are reduced due to a higher efficiency of coal power plants. In the Southern provinces, the emissions factors increased. China has offered Pakistan support in CDM capacity development.
- The DNA host country approval hitlist stands at
 - China: 1749 projects (+151). The new approvals include 56 hydro, 31 wind, 23 waste heat recovery, 11 biomass power, 8 wastewater, 4 Coal Mine Methane CMM, 3 Landfill Gas LFG and fuel switch, 2 ultra-supercritical coal power plants, cement blending, supply side energy efficiency and waste incineration, and 1 SF₆, manure management, forestry and household energy efficiency project each. Total annual CER volume is estimated at 23.1 million per year; the average size of hydro plants is increasing.
 - India: 1153 projects (+15)
 - Brazil: 197 projects (+2). The new projects relate to swine waste management
 - Mexico: 189 projects (+0).
 - Vietnam: 78 projects (+0).
 - Indonesia: 70 projects (+0).
 - Philippines: 55 projects (+0).
 - Thailand: 46 projects (+5), with two biomass power and wastewater projects as well as one waste heat recovery project newly approved. Projected annual CER volume is 0.3 million
 - Colombia: 34 projects (+3). New projects are hydropower, LFG and energy efficiency in industry, with an annual CER volume of 0.3 million.
 - Peru: 24 projects (+0)
 - Israel: 20 projects (+1). The new project reduces SF₆
 - Argentina and South Africa: 19 projects (+0).
- The DNA investor country approval hitlist stands at
 - UK: 816 projects (+0).
 - Japan: 393 projects (+23). Annual CER volume is estimated at 121 million (+ 1.6 million)
 - Sweden: 178 projects (+54).
 - Germany: 118 projects (+7).
 - Spain: 75 projects (+0)

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

Project developers

- The submission of new projects picked up again. Large new projects in the pipeline are
 - One 300 MW wind project (China, 3.4 million CERs by 2012)
 - One hydro power plant with 270 MW (China, 2.3 million CERs each by 2012).
- Abu Dhabi National Oil Company (Adnoc) is planning to assess all its future projects under the CDM angle. This includes CO₂ recovery from flue gases in fertilizer production, gas flaring reduction in refineries and offshore oil production and carbon sequestration through enhanced oil recovery
- The Carbonflow software that had been vetted by DNV (see issue 62) is now also supported by SGS.

- Consultant Verdantix forecasts that CDM project developers will either develop into environmental finance groups that combine investment funds with project finance expertise, vertically integrated carbon solutions firms or clean technology departments in energy/industrial groups.
- In the arbitration case between a Dutch CDM developer and their Chinese joint venture partner, the U.S. arbitrator finally vindicated the Chinese company's position, contrary to an earlier interim judgement (see issue 64). A key argument was that 47% of the joint venture's projects had been registered by the EB, a rate found by the judge better than any of the competitors.

Incentives for CDM investment

- The EU institutions patched together a compromise on the 2020 climate policy programme after tense negotiations. It is complex but beneficial for CDM demand. For a -20% target in the period 2013 - 2020 companies can import 150 million CER/ERUs in addition to the 1.4 billion that can be imported until 2012. Another 150 million of imports are likely to come from sectors newly covered by the ETS (air traffic, industrial gases in chemical, aluminium and fertilizer industry). All companies are entitled to cover at least 11% of the EU allowance allocation through CERs and ERUs. It is unclear whether forestry CERs can be used in the ETS after 2012. Quality criteria for CERs remain to be determined. The total EU allowance volume for the EU ETS remains unchanged compared to the Commission proposal. In case of a -30% target, the import threshold for the ETS would be increased by about 0.9 billion.
- The spot price for EU allowances kept relatively firm and stood at 15.3 Euro on Dec. 31.
- For a -20% target, from 2013 onwards EU governments can buy about 0.75 billion CERs and ERUs, with Austria, Belgium, Cyprus, Denmark, Finland, Ireland, Italy, Luxembourg, Portugal, Slovenia, Spain and Sweden benefiting from a higher quota than the other countries. The enhanced quota for these countries has to come from least developed countries or small island states. For a -30% target, the import volume would increase by 0.55 billion CERs/ERUs.
- In Australia, there will not be any import cap for CERs; forestry CERs are not allowed. The Australian trading scheme will have a price cap of 40 A\$ (20.7 Euro, rising by 5% annually until 2015 and scrapped afterwards.
- Russia's participation in the Kyoto Mechanisms has been suspended by the UNFCCC due to non-payment of fees.
- Japan's government proposes a 2009 budget for CER and ERU acquisition of 345 million Euro.
- The Asian Development Bank's Future Carbon Fund for post-2012 CER acquisition now has a budget of 100 million \$, of which the lion's share is provided by Belgium (Flanders), Finland (20 million) and Sweden; it shall start operation this month
- Morocco's state-run pension fund Caisse de Depot et de Gestion has set up a carbon fund Fonds Capital Carbone Maroc with an budget of 27 million Euro, 25% of which comes from the European Investment Bank
- Ireland buys Polish Assigned Amount Units under a Green Investment Scheme for 15 million Euro
- Deutsche Bank predicts a reduction of EU allowance prices to about 12 Euro during 2009, before increasing in the long term to 25-30 Euro. The Carbon Trust sees EU allowance prices at 10, Fortis at 9 Euro. All banks think that the price will be lower than 20 Euro in 2009. Deutsche Bank downgraded its forecast of total CER demand between 2008 and 2020 from the EU ETS by 0.2 billion to 1.8 billion while Caisse des Dépôts sees total CER supply by April 2013 at 2 billion.
- Regarding post-2012 negotiations
 - Australia has announced a -5% target from 2000 to 2020 that could be strengthened to -15% if an ambitious Copenhagen agreement is reached.
 - Switzerland has announced a -20 to -30% target, aligning itself with the EU. It could take a -50% target but this could then be entirely reached by CER/ERU imports
 - Mexico has announced a -50% target by 2050
 - Chile published a climate policy plan, but did not set any target
 - Malta has applied to become Annex I member

Web news and downloads of the month

- The IETA report "Greenhouse gas markets 2008 – piecing together a comprehensive agreement for a truly global carbon market" with 41 articles, of which 8 address the CDM. Download at <http://www.ieta.org/ieta/www/pages/getfile.php?docID=3118>
- Interesting side event presentations from the COP are

- State of the CDM (W.Betzenbichler, Sindicatum): <http://www.ieta.org/ieta/www/pages/getfile.php?docID=3184>
- CDM reform (Lex de Jonge, EB): <http://www.ieta.org/ieta/www/pages/getfile.php?docID=3183>
- Attractiveness of CDM project types (Gareth Philips, Sindicatum): <http://www.ieta.org/ieta/www/pages/getfile.php?docID=3174>
- VVM (Javier Castro, TÜV Süd): <http://www.ieta.org/ieta/www/pages/getfile.php?docID=3197>
- Problems with the VVM (Siddarth Yadav, SGS): <http://www.ieta.org/ieta/www/pages/getfile.php?docID=3195>
- Benchmarks (Bruno Vanderborght, Holcim): <http://www.ieta.org/ieta/www/pages/getfile.php?docID=3144>
- Programmatic CDM (Lasse Ringius, World Bank): <http://www.ieta.org/ieta/www/pages/getfile.php?docID=3150>
- Methodological challenges of PoAs (Axel Michaelowa, Perspectives): http://regserver.unfccc.int/seors/attachments/file_storage/wfyzmh4z9dz92ff.ppt
- First lessons from PoAs (Klaus Oppermann, KfW): http://regserver.unfccc.int/seors/attachments/file_storage/xy8mmoow4h4ucdw.pdf
- Demand and supply for CERs until 2020 (Arne Eik, Point Carbon): <http://www.ieta.org/ieta/www/pages/getfile.php?docID=3213>
- Strengths and weaknesses of sectoral crediting proposals (Lambert Schneider, Öko-Institute): http://regserver.unfccc.int/seors/attachments/file_storage/keqgyxdae1zw5by.ppt
- New investment additionality test proposal (Gareth Philips, Sindicatum): <http://www.ieta.org/ieta/www/pages/getfile.php?docID=3134>
- How does TÜV Süd improve its procedures (Sven Kolmetz): <http://www.ieta.org/ieta/www/pages/getfile.php?docID=3133>
- A detailed report on challenges of CDM projects in the building sector can be downloaded at <http://unepiso.org/CDMbuildings/CDMbuildings.pdf>
- A report on CDM potential of solar water heater programmes is available at http://unepiso.org/SWH_CDM/CDMmodelSolarWaterHeaters.pdf
- IETA's traditional "State of the CDM report" can be downloaded at <http://www.ieta.org/ieta/www/pages/download.php?docID=3111>
- UK's Carbon Trust has summarized the lessons of the Kyoto Mechanisms in a report available at Carbon Trust report on mechanisms: <http://www.carbontrust.co.uk/publications/publicationdetail?productid=CTC747>
- E&Y's guide "Developing a CDM or JI project", focusing on the situation in France, can be downloaded at [http://www.ey.com/global/content.nsf/France/Formulaire_etudes_onlineBIS#etude=Developing%20a%20CDM%20or%20JI%20project%20to%20reduce%20greenhouse%20gas%20emissions%20-%20Identifying%20opportunities%20-%20Getting%20started&fichier=/Global/assets.nsf/France/122008_guide_MDP_MOC_EN/\\$file/122008_Guide_MDP_MOC_EN.pdf&lien=Etudes_enquetes.SAAS.Guide_MDP_MOC_EN](http://www.ey.com/global/content.nsf/France/Formulaire_etudes_onlineBIS#etude=Developing%20a%20CDM%20or%20JI%20project%20to%20reduce%20greenhouse%20gas%20emissions%20-%20Identifying%20opportunities%20-%20Getting%20started&fichier=/Global/assets.nsf/France/122008_guide_MDP_MOC_EN/$file/122008_Guide_MDP_MOC_EN.pdf&lien=Etudes_enquetes.SAAS.Guide_MDP_MOC_EN)
- A not brand new, but still relevant discussion of CDM challenges in efficient stove programmes is available at <http://www.hedon.info/CarbonSIGConferenceJanuary2008>
- The CDM Bazaar was shut down for overhaul; new numbers will be reported in the next issue.

Other news

- Clever Indian entrepreneurs offer a range of CDM T-shirts at http://www.carbonyatra.com/news_detail.php?id=2431. Choices include "CDM – reject" and "Carbon project 007 –validated, not verified"
- Germany launches Kyoto Mechanisms Portal in English
On November 2008, the German government launched the English version of its internet portal on the flexible Kyoto mechanisms. The Environment Ministry informs about the Kyoto mechanisms CDM and JI. The portal contains a comprehensive introduction into CDM and JI, current news and events, relevant publications and a comprehensive glossary. A service platform for project developers provides direct access to information and documents needed to develop and carry out CDM/JI projects, including the project cycles, short portraits of potential host countries, and all key legislation and decisions. See http://www.jiko-bmu.de/english/background_information/introduction_cdm_ji/aktuell/442.php

Country of the month: Singapore

Singapore was surprisingly reluctant to get involved in climate policy until very recently, probably out of fears that it would be classified as an industrialized country and thus have to take up an emissions target that would be detrimental to its economic growth. Singapore notified its DNA only in May 2006, much later than many of its neighbours. Since then, it has become quite active and acts efficiently (for the DNA website see <http://www.nccc.gov.sg/cdm/cdm.shtml>). The Singaporean DNA requires a Project Idea Note together with the PDD. The electricity grid baseline emissions factors are published at <http://www.nccc.gov.sg/cdm/InformationOnEmissionFactors.pdf>; they have been updated at the end of 2008. Singapore's trade and industry minister Iswaran recently stated Singapore's aim to become a regional carbon price discovery centre and trading hub. A vibrant cluster of project consultants and developers, financial and legal service providers, R&D and educational institutions, traders and fund managers shall be attracted. As incentive, tax reductions are granted to companies involved in emissions trading under the International Enterprise Singapore Global Trader Programme. CDM-related companies operating out of Singapore are Agrinergy, Aretae, Asia Carbon, Carbon Bridge, the Carbon Rating Agency and Ecowise. Singapore has held several carbon fairs in the last two years; the last one in November 2008 had over 100 exhibitors, and 980 participants from more than 60 countries. Singapore has one registered project (15,000 CERs per year) and 4 projects under validation (0.6 million CERs per year). A high potential is seen in industrial gas reduction from the semiconductor industry. Project developers can apply for a subsidy of 30% of PDD costs or 50% of costs of methodology development, capped at 50,000 Euros.

Number of the month

2.5 billion: CER/ERU demand from the EU in the 2013-2020 period if the EU takes up a -30% target

The CDM year 2008 in numbers

137.5 million CERs were issued; 161 projects achieved their first issuance. Price of issued CERs fell by 3.7 Euro (21%). 405 projects were registered, while 1150 new projects were submitted for validation. 35 projects were rejected and 15 withdrawn. Only one new country entered the rank of countries hosting registered projects, while 8 new DNAs were notified. 9 large-scale and 13 small-scale methodologies were approved.

CDM counter (as of December 31, 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: 120
 - Of which 2 are a PoA
- Projects that are undergoing and have undergone the public comment period: 3182
 - Of which 141 have applied for registration since the end of the last month

- Of which 126 are under completeness check
 - for 89 of which a request for review has been launched
 - Of which 97 have to make corrections
 - Of which 17 are undergoing review
 - Of which 87 have been rejected
 - Of which 558 have been submitted for public comments more than once
 - Of which 24 have officially been withdrawn
 - Of which 7 are PoAs
 - Of which 79 apply for the Gold Standard
- Expected CERs until 2012 from those projects: 1492 million
 - Of which 159.2 million from those that officially applied for registration
 - Of those 98.2 million from projects with request for review
 - Of which 67.2 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 7.8 million from withdrawn ones
- Registered projects: 1300
 - expecting 1421 million CERs by 2012
 - Of which 0 are PoAs
 - Of which 6 fulfil the Gold Standard
 - Host countries: 51
 - Buyer countries: 14
- Issued CERs: 240 million
 - Projects with issued CERs: 441
 - Of which 3 Gold Standard projects
- CER price: ~7 Euro for post-2012 vintages, 6-10 Euro for medium-risk forwards, 9-11 Euro for low-risk forwards, 10-12 Euro for registered projects, 13-14 Euro for issued CERs, 13.6 Euro Dec. 31, 2008 spot price on Reuters

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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

Author: Axel Michaelowa, Perspectives GmbH