

## CDM Highlights 68

February 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!

The crisis has hit the CDM market in January with full fury, sending prices for issued CERs below 10 Euro. As the Chinese floor price has not been changed, the market for primary CERs has de facto frozen. The outlook for the CDM in the Copenhagen negotiations is darkening as the EU Commission has proposed that the CDM should be limited to LDCs. The only upbeat signal came from US President Obama who wants to “roll back the spectre of a warming planet with old friends and former foes”.

Anja Wucke, GTZ and Axel Michaelowa, Perspectives

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### UNFCCC, EB and its panels

- The Meth Panel made the following recommendations at its 36<sup>th</sup> meeting on January 19-23
  - Approval of baseline methodologies for landfill gas substituting natural gas, trigeneration, use of compressed natural gas in transport and SF<sub>6</sub> reduction from production of LCD screens
  - Rejection of methodologies for gas flaring reduction, increase of rail use, PFC reduction from semiconductor production and CO<sub>2</sub> recovery from fertilizer
  - The Panel is building up a backlog. 12 methodologies wait for expert input; some are already waiting for many months.
  - The renewable grid electricity methodology ACM 2 shall be revised to take into account project emissions of solar thermal power plants
  - In the medium term, the biopower methodology ACM 6 shall be replaced by three separate methodologies; this would be the first case of a “de-consolidation”
  - A tool for baseline efficiency of thermal power plants is proposed, which is quite revolutionary, versatile and for the first time in CDM rules would allow model-based regression analysis. Also, conservative default values for different boiler types of different ages can be used
- The UNFCCC - CDM photo contest was won by a picture of the South African Kuyasa housing energy efficiency project. Ranks 2-4 went to submissions from the three market leaders China, India and Brazil.
- In 2008, the CDM administration at UNFCCC made a surplus of 22 million \$.

### Baseline and monitoring methodologies

- Four new large-scale methodologies have been submitted, looking at SF<sub>6</sub> reductions, solar water heating, and reductions of emissions from peat burning.
- Five new small-scale methodologies have been submitted for energy efficiency in new housing, use of recycling material, energy efficiency in electricity generation, fuel cells and blending of lime

### Designated Operational Entities

- DNV, whose suspension continues, plans a Middle East Climate Change Academy and Network in the United Arab Emirates.

### Designated National Authorities

- Gabon and Serbia have notified their DNAs

- In a significant change of policy, the Indian DNA requires developers of large scale projects to spend at least 2% of CER revenues for Sustainable Development including society/community development. A monitorable action plan has to be included in the PDD; the DNA can ask project developers to submit the details of expenditures at any given time during the crediting period of project.
  - The DNA host country approval hitlist stands at
    - China: 1797 projects (+48). The new approvals include 19 hydro, 12 waste heat recovery, 9 wind, 3 biomass power, 2 Coal Mine Methane (CMM), 1 landfill gas (LFG),, waste incineration and district heating energy efficiency project each. Total annual CER volume is estimated at 8.3 million per year; one 630 MW hydro project (2.2 million) and the CMM project (1.7 million) dominate.
    - India: 1153 projects (+0)
    - Brazil: 198 projects (+1). The new project relates to swine waste management
    - Mexico: 189 projects (+0).
    - Vietnam: 78 projects (+0).
    - Indonesia: 70 projects (+0).
    - Philippines: 55 projects (+0).
    - Thailand: 53 projects (+7), with 6 wastewater and one LFG project newly approved. Projected annual CER volume is 0.55 million
    - Colombia: 37 projects (+3). New projects are LFG, composting and energy efficiency in transport, with an annual CER volume of 0.1 million.
    - Peru: 24 projects (+0)
    - Israel: 20 projects (+0)
    - Argentina: 20 projects (+1). The new Argentinean project is a LFG methane capture.
    - South Africa: 19 projects (+0).
  - The DNA investor country approval hitlist stands at
    - UK: 816 projects (+0).
    - Japan: 415 projects (+22). Annual CER volume is estimated at 123 million (+ 1.6 million)
    - Sweden: 178 projects (+0).
    - Germany: 129 projects (+11).
    - 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 slowed down. Large new projects in the pipeline are
  - One 330 MW wind project (India, 3.4 million CERs by 2012)
  - One geothermal power plant with 270 MW (Indonesia, 2.8 million CERs each by 2012).
- All CDM developers listed on London Stock Exchange have suffered heavily from the fall in CERs with share prices at historic lows. Compared to year end 2008, Camco lost 20% (80% compared to issuance price), EcoSecurities lost 30% (90% compared to issuance price). Only Trading Emissions held relatively steady (loss of 40% compared to issuance price).
- Camco deferred a planned CER auction due to the price decrease. It assumes an average project performance of 64% of estimated CERs. Camco's portfolio is estimated at 100 million CERs
- Trading Emissions expects alleviation of the downward pressure on carbon prices in the next 12 to 18 months and soothes investors with the statement that its CER acquisition costs have remained below 8 Euro.
- Abu Dhabi-based CDM developer Masdar has signed an agreement with the Nigerian National Petroleum Company to develop gas flaring reduction projects in Nigeria. Moreover, it is embarking on a renewable energy project portfolio in the Seychelles, starting with 18 MW of wind power. It has also announced to be the CDM consultant for Abu Dhabi National Oil Company (see last issue)
- CarbonStream Africa has been set up with a staff of 5 to develop CDM projects in Africa. It is a joint venture between South African state-owned CEF Carbon SA (Pty) and Nordic company Green-Stream Network Plc.

### **Incentives for CDM investment**

- The spot price for EU allowances crashed to 11.6 Euro on January 30 after reaching a low of 11 Euro in mid-January.

- According to ICF Consulting, the total budget volume of the 84 carbon funds in the market has reached 9 billion Euro. In 2008, budgets grew by 1 billion Euro, but the first funds are shutting down (see below)
- Hedge fund Man Group is liquidating 400 million Euro investment into the China Methane Recovery Fund that specialized in coal mine methane projects in China.
- Belgium has published a tender for CER acquisition with a budget of 50 million Euro. It aims at large projects or whole portfolios, with a contract value between 7 and 30 million Euro. Expressions of Interest are due on February 25. See also <http://www.climatechange.be/jicdm tender>.
- German development bank KfW has set up a PoA Support Centre which offers assistance and advice on the development of PoAs and evaluates PoA proposals. See [www.kfw-foerderbank.de/EN\\_Home/KfW\\_Carbon\\_Fund/PoA\\_Support\\_Centre\\_Germany/Programme\\_proposal.jsp](http://www.kfw-foerderbank.de/EN_Home/KfW_Carbon_Fund/PoA_Support_Centre_Germany/Programme_proposal.jsp)
- In South Africa, the national energy regulator NERSA discusses whether the feed-in-tariff for renewable shall be reduced if a renewable energy project receives CER revenues.
- Carbon Capture and Storage (CCS) lobbyists are exasperated about the CDM and now start openly to fight against it. Jeff Chapman, head of the lobby group "Carbon Capture and Storage Association", criticized the CDM for being inefficient and stated his hope that the CDM would be replaced by a mechanism including by the Copenhagen agreement. Venezuela has just confirmed its opposition against CCS in the CDM.
- Zurich insurance offers a Carbon Capture and Sequestration Liability Insurance and Geologic Sequestration Financial Assurance). It is unclear whether they would also cover projects in developing countries.
- 75 countries have signed the statutes of the International Renewable Energy Agency (IRENA), which might also spur development of renewable energy CDM projects through provision of data on renewable energy and support of technology transfer.
- The first Joint Implementation project has been verified
- Regarding post-2012 negotiations the EU commission proposes
  - a -30% reduction for all OECD members, Annex I countries and EU candidates. Unsold surpluses (e.g. from Russia and other countries in transition) should be deducted from the target
  - an OECD-wide trading system by 2015, with some developing countries integrated by 2020
  - developing countries to reduce emissions 15-30% from business-as-usual
  - more than a third of the financing of emission reduction in developing countries beyond the domestic capabilities of the respective country should come through international carbon crediting mechanisms
  - international emission reduction arrangement for HFC emissions, implicitly excluding HFCs from the CDM
  - to credit only those CDM projects that deliver real additional reductions and go beyond low cost options
  - to replace the CDM through a sectoral carbon market crediting mechanism for advanced developing countries and highly competitive economic sectors. Over time, CDM should be superseded by cap and trade.
  - emission targets for international air and maritime transport below 2005 levels by 2020, and "significantly" below 1990 levels by 2050

### Web news and downloads of the month

- A wealth of background papers to the EU Commission's proposal for the post-2012 regime is available at [http://ec.europa.eu/environment/climat/future\\_action.htm](http://ec.europa.eu/environment/climat/future_action.htm)
- An analysis of carbon funds and the challenges due to the economic crisis by ICF Consulting is available at [www.icfi.com/markets/energy/doc\\_files/carbon-procurement-guide.pdf](http://www.icfi.com/markets/energy/doc_files/carbon-procurement-guide.pdf)
- Presentations of the Austrian JI/CDM workshop are available at [www.ji-cdm-austria.at/de/portal/aboutus/events/](http://www.ji-cdm-austria.at/de/portal/aboutus/events/). The most interesting ones are:
  - EU Commission's position on CDM after 2012 (Thomas Bernheim, EU Commission): [www.ji-cdm-austria.at/blueline/upload/4bernheimeuetsstatusandoutlookforjicdmws2009.pdf%20](http://www.ji-cdm-austria.at/blueline/upload/4bernheimeuetsstatusandoutlookforjicdmws2009.pdf%20)
  - Forecast of the CER price (Brett Orlando, Deutsche Bank): [www.ji-cdm-austria.at/blueline/upload/5orlandoembulltobearmarket.pdf](http://www.ji-cdm-austria.at/blueline/upload/5orlandoembulltobearmarket.pdf)
  - CDM in the Balkan region (Daniela Stoycheva): [www.ji-cdm-austria.at/blueline/upload/3stoychevabalkanregionws2009.pdf](http://www.ji-cdm-austria.at/blueline/upload/3stoychevabalkanregionws2009.pdf)
- Associated Press criticizes the Xiaoxi hydro project in China for not being additional, in an article widely reprinted in newspapers around the world, see [www.google.com/hostednews/ap/article/ALeqM5iL-5qI1lqMzmWJyE8DREG3fK\\_iMAD95U85900](http://www.google.com/hostednews/ap/article/ALeqM5iL-5qI1lqMzmWJyE8DREG3fK_iMAD95U85900)

- A very well-researched story on how corrupt municipal officials in Cameroon try to get shares in a waste CDM project is available at <http://allafrica.com/stories/200901261519.html>
- A French language case study on the World Bank's CDM programme for distribution of energy saving lamps is available at <http://siteresources.worldbank.org/INTCARFINASS/Resources/MDPcasestudycompletescreen.pdf>
- A paper by UNEP Risoe Centre discusses electricity sector no-lose targets in developing countries for post-2012, download <http://www.cd4cdm.org/Publications/ElectricityTargetsDCpost2010.pdf>
- A. Dinar and colleagues assess factors determining host country participation in CDM, download at [www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2008/11/24/.../PDF/WPS4786.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2008/11/24/.../PDF/WPS4786.pdf)
- D. Rübhelke and N. Rive discuss effects of the CDM on poverty eradication, download at [www.feem.it/NR/rdonlyres/C6D2B533-A069-4A08-8559-AF9799236C7F/2742/9308.pdf](http://www.feem.it/NR/rdonlyres/C6D2B533-A069-4A08-8559-AF9799236C7F/2742/9308.pdf)
- ZhongXiang Zhang discusses the role of CDM for Chinese emissions reduction in his paper "Is it Fair to Treat China as a Christmas Tree to Hang Everybody's Complaints? Putting its Own Energy Saving into Perspective", download at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1285618](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1285618)
- A CDM platform for companies in the Chinese market is available at <http://china.ahk.de/en/cdm/>
- By the end of January, 187 buyers (+10) from 32 countries (+1), 240 (+19) sellers from 55 countries (+2) and 524 service providers (+42) from 61 countries (+4) had listings on CDM Bazaar. India leads the list of service providers with 121 entries, followed by the UK with 52, China with 47, US with 46 and Brazil with 30. 49 projects (+7) have been posted by sellers.

### Other news

- The Carbon Markets Insights fair will be held at Copenhagen from March 17-19. For information regarding programme and registration see <http://www.pointcarbon.com/events/conferences/cmi09/1.986082/>
- The Gold Standard holds its annual academy in Geneva on March 24-26. For information see <http://www.cdmgoldstandard.org/events.php?PHPSESSID=cfeefc679a3d272c394192aa75041266>

### Country of the month: Uzbekistan

Uzbekistan has been the country of Central Asia which was the first to get engaged with greenhouse gas market mechanisms. Already before the signing of the Kyoto Protocol, a carbon market workshop was held in Tashkent. But afterwards, it took many years before the necessary infrastructures for the CDM were put in place. A UNDP capacity building project finally brought the breakthrough. In December 2006, an Interagency Council on the CDM with 21 members was established at the Cabinet of Ministers, which is responsible for the final approval of CDM projects. The Ministry of Economy became the DNA and a Cabinet decree on January 10, 2007 specified the detailed DNA rules. A two-step procedure with a letter of endorsement based on a PIN and an approval letter based on a PDD is followed. Each of these steps shall take 4 weeks. The DNA, which provides detailed information on its website [www.mineconomy.uz/cdm](http://www.mineconomy.uz/cdm), has provided endorsement letters to 63 projects with annual CER volumes of 15 million, focusing on gas pipeline leakage reduction, chemical industry (nitric acid), hydropower and LFG. A peculiarity of Uzbek CDM procedures is that prospective CER buyers have to bid for projects through the Interagency Council; in October 2007, a carbon finance forum was held in Tashkent to solicit bidders. 6 projects with 6 million pre-2012 CERs are under validation and one has been submitted for registration. The buyers are the MDG Carbon Fund and Mitsubishi. Observers of the CDM scene in Uzbekistan (see <http://www.ji-cdm-austria.at/blueline/upload/2zavyalovasnapshotcentralasiaws2009.pdf>) see a disillusionment of project developers who were promised "easy money" but now feel overwhelmed by the CDM procedures and frustrated by accumulating delays. Moreover, they see lack of knowledgeable local CDM consultants, leading to nicely groomed PDDs written by foreign consultants that do not reflect project realities on the ground. This generates problems during validation.

### Number of the month

9.95 Euro: issued CER price on Bluenext on January 20, marking the lowest level since issued CERs have been traded

## **CDM counter** (as of January 31, 2009)

- Pending large-scale baseline methodologies: 27
  - of which forestry: 1
- Pending small-scale baseline methodologies: 13
- 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: 137 (110 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: 110
  - Of which 1 is a PoA
- Projects that are undergoing and have undergone the public comment period: 3223
  - Of which 93 have applied for registration since the end of the last month
  - Of which 106 are under completeness check
  - for 132 of which a request for review has been launched
  - Of which 82 have to make corrections
  - Of which 17 are undergoing review
  - Of which 87 have been rejected – with
  - Of which 561 have been submitted for public comments more than once
  - Of which 24 have officially been withdrawn
  - Of which 8 are PoAs
  - Of which 74 apply for the Gold Standard
- Expected CERs until 2012 from those projects: 1515 million
  - Of which 162 million from those that officially applied for registration
    - Of those 121 million from projects with request for review
  - Of which 59.5 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: 1370
  - expecting 1463 million CERs by 2012
  - Of which 0 are PoAs
  - Of which 10 fulfil the Gold Standard
  - Host countries: 51
  - Buyer countries: 14
- Issued CERs: 250 million
  - Projects with issued CERs: 465
  - Of which 4 Gold Standard projects
  - Rejected requests for issuance: 8 (0.2 million CERs)
  - Withdrawn requests for issuance: 13 (1.2 million CERs)
- CER price: ~7 Euro for post-2012 vintages, 6-8 Euro for medium-risk forwards, 7-8 Euro for low-risk forwards, 8-9 Euro for registered projects, 10-11 Euro for issued CERs, 10.6 Euro BlueNext spot price on Reuters. Please note that the market for primary CERs is currently de facto frozen!

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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