

CDM Highlights 69

March 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

Editorial

Dear reader!

At a record price low of 7,6 Euro, issued CERs in mid-February reached levels where project developers have traditionally been selling CERs through forward contracts. The market for such primary CERs has therefore dried out, especially as China has not been willing to reduce the floor price. The economic crisis now also jeopardizes the CDM through a second route – reduction of project performance due to the precipitous decline of industrial production in key CDM host countries. At the same time, the EB is bogged down in project-specific casework and thus the key regulatory challenges get sidelined. The months ahead will be testing the nerves of the whole CDM community.

Anja Wucke, GTZ and Axel Michaelowa, Perspectives

UNFCCC, EB and its panels

- The EB made the following decisions at its 45th meeting on February 11-13
 - DNV's suspension was lifted. However, five of its next activities and the office operation will be checked in the next months
 - The Meth Panel proposals on baseline methodologies (see last issue) were all approved
 - Public comments are invited on the tool for baseline efficiency of thermal power plants until March 31
 - The number of requests of reviews of registration requests reached a record with 113 cases, of which now 43 will be reviewed. 68 projects have to make corrections. The main problems raised are common practice test, serious consideration of CDM before project start and parameters for the investment test
 - While only 5 projects were rejected (4 of them were waste heat recovery in Chinese coking plants), another 16 projects have to make corrections; the EB wording on those corrections is so strong that many of those projects are likely to fail
 - Of 31 review requests on requests for issuance, 10 projects were put under review and for six projects the CER volumes changed, albeit insignificantly (reduction of 1500 CERs).
 - An almost unlimited choice of options has been allowed for the organization of communication between project developers and the EB. Three different scopes of authority (distribution of CERs, addition or withdrawal of project participants, and other matters) have been defined and can be allocated to different (groups of) entities that need not be project participants.
 - DOEs propose a maximum timeline for validation of 6 months and for verification of 3 months, provided the project developers provide sufficient answers to solve corrective actions requests in less than 4 weeks
 - Different levels of CDM rules have been defined. A key differentiation will be between "procedure", "guidance" and "guideline". A procedure is a "mandatory series of actions". A guidance provides supplemental advice or instruction on a procedure or guideline, but is only mandatory in the context of the former. A guideline provides supplemental information to a procedure or guidance. Thus, a guidance is relatively weak, for example if the additionality tool is used in a context where it is not mandatory.
 - The revision of rules for programmatic CDM, accreditation standards and procedures as well as guidance on barrier and common practice testing have again been postponed, as well as the question of plant load factors and baseline updates for renewal of crediting periods. The latter is contentious with respect to the scope of update including a check of continued additionality. Regarding programmes, the Secretariat has suggested to allow the combination of small-scale methodologies, not to apply debundling rules for small technologies and to limit the time for a request for review of a project to 1 year.

- Lex de Jonge, a very experienced member from the Netherlands, was elected as EB chair
- The duration of completeness checks for issuance rose abruptly to 3 months in November 2008. At the same time, the UNFCCC Secretariat stated that the backlog of projects in the completeness check phase for registration has been cleared by end of February and that the deadline of 30 working days can now be kept.
- The EB expects 1000 registrations and 1050 request for review and review cases in 2009. The latter number seems very high; it seems that the EB does not think that the Validation and Verification Manual will substantially reduce the caseload.

Designated Operational Entities

- TÜV Nord has been accredited for verification in six scopes, including industry
- DOEs want to lengthen the validity of accreditation from 3 to 5 years.

Designated National Authorities

- The Brazilian DNA has stated that CDM programmes need only one approval for the entire programme, not an approval for each project under the programme
- New Zealand has published its CDM approval guidelines at <http://www.mfe.govt.nz/publications/climate/kyoto-protocol-implement-clean-development/implementation.pdf>. Only companies registered in New Zealand or Australian companies can get approval. Forestry projects that opt for long-term CERs (ICERs) are not eligible. A host country approval is required before the New Zealand process is started.
- The DNA host country approval hitlist stands at
 - China: 1846 projects (+49). The new approvals include 26 hydro, 10 wind, 9 waste heat recovery, 2 geothermal and 1 biomass power, LFG, and gas flaring reduction project each. Total annual CER volume is estimated at 4.1 million per year.
 - India: 1172 projects (+19)
 - Brazil: 198 projects (+0).
 - Mexico: 189 projects (+0).
 - Indonesia: 90 projects (+20). The new approvals include 12 wastewater projects, 2 geothermal, energy efficiency in industry and composting projects each, 1 transport efficiency and waste heat recovery each. Annual CER volume is estimated at 0.7 million. The Indonesian DNA has updated its baseline emissions factors for Java and Sumatra to include 2008 data.
 - Vietnam: 78 projects (+0).
 - Philippines: 55 projects (+0).
 - Thailand: 53 projects (+0). The Thai DNA is currently studying tax incentives to promote CDM projects, such as exemption from income tax.
 - Colombia: 37 projects (+0).
 - Peru: 24 projects (+0)
 - Israel; Argentina: 20 projects (+0)
 - South Africa: 19 projects (+0).
- The DNA investor country approval hitlist stands at
 - UK: 816 projects (+0).
 - Japan: 415 projects (+0).
 - Sweden: 184 projects (+6).
 - Germany: 131 projects (+2).
 - Spain: 84 projects (+9)
 Please note that large projects may be approved by more than one investor country!

Project developers

- The submission of new projects slowed down considerably to 75 projects. No new project in the pipeline estimates more than 1.1 million CERs by 2012.
- According to Reuters, CDM developers are laying off project identification staff and suffer from buyers not honouring forward contracts closed in the period of high prices
- The Philippines plan a CDM programme to distribute 13 million energy savings lamps, which is funded through a 31 million \$ loan from the Asian Development Bank. A giant Chinese programme

that has subsidized over 50 million lamps in 2008 and aims to double this number in 2009 is apparently not planning CDM submission.

- French chemical producer Rhodia has increased its CER revenues in 2008 to 158 million Euro from 135 million in 2007. For 2009, it has already forward sold 7,2 million CERs at a price of 15,5 Euro.
- South African NGO Earthlife has criticized South African oil major SASOL's proposed CDM gas pipeline project to build a natural gas pipeline from Mozambique for being "a particularly lucrative piece of greenwash". They argue that the project was already planned in the late 1990s and is not additional, as SASOL's annual report states "natural gas is a viable alternative feedstock" for Sasol's transport fuel production plant.
- Pakistan's Water and Power Development Authority plans to build 32 hydro power plants in the next years and submit them as CDM projects
- Carbon market pioneers Ken Newcombe and Matthew Mendis have announced the set up of C-Quest-Capital, a company that aims to invest in CDM projects. Its name puts a focus on forestry, but detailed information about the company is not available yet
- Junji Hatano, formerly at Mitsubishi Securities, has set up the company Carbon Partners Asiatica. Its unusual business model is to consult exclusively sellers of carbon credits to achieve the maximum price possible. The company focuses on South East Asia.

Incentives for CDM investment

- The rout on the markets continued until mid-February, when EU allowances fell below 8 Euro and issued CERs reached a level of 7,6 Euro; the spread to reaching just 0,3 Euro. Since then, some rebound has taken place but volatility remains extremely high. Several market analysts called for government intervention to prop up prices, including Deutsche Bank. The fall in price is due to distressed companies selling EU allowances, which are one of the few liquid assets. Moreover heavy industry is in free fall. For example, EU steel production in January has halved compared to a year ago. Point Carbon has slashed its forecast for emissions under the EU emissions trading scheme by 500 million tonnes for the period 2008-2012.
- The drying out of the primary CER market due to the crash in prices for issued CERs has led to the emergence of a new transaction type. The exchange Climex is auctioning the spread between primary and issued CERs for 0,35 million primary CERs from a wind project in China. The auction will be held on March 26 and start with a spread of 3 Euro. Climex hopes that the spread is reduced significantly by the auction.
- The EU states have agreed on common guidelines for checking the compliance of hydro projects above 20 MW with the World Commission on Dams rules, that shall enter into force on April 1. The so-called compliance report template specified the criteria, inter alia that "key documentation (e.g., social and environmental impact assessments) should be made public/made available to the relevant stakeholders such as [...] the people affected". The report needs to be validated by a DOE. For the guidelines see www.mma.es/secciones/cambio_climatico/areas_tematicas/flexibilidad/and/pdf/non_pap_fin.pdf and the template at www.mma.es/secciones/cambio_climatico/areas_tematicas/flexibilidad/and/pdf/inf_cum_art_11b_in g.pdf
- Hungary has already broken its fledgling law on green investment schemes by announcing that 70 million Euro revenue from Assigned Amount Units (AAU) sales in 2009 would go into the general budget
- The Czech Republic has indefinitely postponed planned AAU sales due to the low prices. Ukraine plans to sell 50 million AAUs to Japan, but negotiations are stuck over price
- The Swiss Climate Cent Foundation has got the green light to import another 2 million CERs and ERUs due to the Swiss government recognizing that its Kyoto gap is higher than previously thought
- Liechtenstein limits CER imports to Gold Standard CERs; import needs are estimated at 0,23 million CERs
- South Africa wants to exempt primary CER sales from income taxes, but parliament still needs to decide on this issue. Sale of issued CERs shall be taxed like share transactions.
- After a long waiting period, the Bureau of Energy Efficiency (BEE), Government of India, has publicly launched the nation-wide CFL distribution programme "Bachat Lamp Yojana" which PoA is facilitated by GTZ
- In an unprecedented outcome of a lawsuit, the U.S. Export-Import Bank has agreed to take CO₂ emissions into account in evaluating fossil fuel projects in developing countries. The second U.S. export credit agency Overseas Private Investment Corporation commits to reducing greenhouse

gas emissions from its projects by 20% over the next decade. Both banks commit 500 million \$ for renewable energy projects. This is likely to lead to a strong interest in CDM projects by those banks.

- Steel giant ArcelorMittal has dismantled its 100 million Euro acquisition programme (see issue 62) due to the impacts of the economic crisis. This is the second prominent crisis victim on the CER demand side after the coal mine methane fund of MAN Group (see last issue).
- Turkey and Kazakhstan have ratified the Kyoto Protocol. Both countries are special cases with regards to commitments (Turkey having none and Kazakhstan trying to get a 100% target which would entail a lot of "hot air") and thus currently cannot apply the Kyoto mechanisms.
- USAID is starting to get involved in CDM capacity building for the first time after the demise of the Bush administration with a programme in Jordan
- The UK has published the long-awaited guidelines for voluntary offsets. Under the "Quality Assurance Scheme for Carbon Offsetting" only CERs (including forestry), ERUs and EU allowances are eligible. VER providers had strongly lobbied to include other types of offsets. The detailed standards document is available at <http://offsetting.defra.gov.uk/cms/assets/Uploads/NewFolder-2/Scheme-Requirements-Document.pdf>
- Regarding post-2012 negotiations
 - The EU Commission steps up its campaign to phase out CDM for advanced developing countries, with its chief negotiator stating "to address carbon leakage in some countries, one should phase out CDM projects for those industries that are exposed to international competition". Instead, sectoral crediting should be done on the basis of an ambitious baseline. Mr. Runge-Metzger (European Commission) even stated that the "CDM [...] is a subsidy to your competitor in China"
 - Sweden proposes a 40% greenhouse gas reduction target for 2020 for the sectors not covered by the EU ETS, of which 1/3 would be fulfilled through the Kyoto Mechanisms. At the same time, the nuclear phase out will be reversed.
 - UN Secretary General Ban Ki Moon called on developing countries to contribute to emissions reduction, leading to strong rebuttals from India and China
 - US foreign minister Mrs. Clinton visited China for discussions on climate policy, including a CDM gas power plant in Beijing, which the accompanying US Special Envoy on Climate Change Todd Stern hailed as "exactly the kind of thing the US and China should do more together"
 - US president Obama has proposed an emissions trading system with full auctioning of allowances in his long-term budget.
 - Japanese business association Keidanren opposes CER imports after 2012

Web news and downloads of the month

- The IEA assesses the potential for landfill gas capture and utilization in India: www.iea.org/textbase/papers/2008/India_methane.pdf
- Landfill gas is a project category with serious performance problems. Presentations of the Methane to Markets Initiative discuss the situation in China (www.methanetomarkets.org/events/2009/all/docs/all-27jan09/techTransfer/landfill/lloyd.pdf) and Mexico (www.methanetomarkets.org/events/2009/all/docs/all-27jan09/techTransfer/landfill/stege_davila_english.pdf)
- The agricultural and forestry CDM potential in Africa is analyzed in www.ifpri.org/pubs/dp/IFPRIDP00832.pdf
- The gas flaring reduction potential in developing countries is estimated in www.methanetomarkets.org/events/2009/all/docs/all-27jan09/techTransfer/oilgas/day2_sucres_1725_eng.pdf
- The current policy to reduce coal mine methane emissions in China is discussed in: www.methanetomarkets.org/events/2009/all/docs/all-27jan09/subcommittee/coal/China.pdf
- A useful one-stop website listing all approved baseline and monitoring methodologies is <http://wbcarbonfinance.org/Router.cfm?Page=Methodology&mt=Search>
- C. Hagem and B. Holtsmark discuss whether the CDM is an obstacle to host country commitments in a post-2012 policy regime: www.ssb.no/publikasjoner/DP/pdf/dp577.pdf
- By the end of February, 194 buyers (+7) from 33 countries (+1), 253 (+13) sellers from 57 countries (+2) and 537 service providers (+13) from 61 countries (+0) had listings on CDM Bazaar. India leads the list of service providers with 125 entries, followed by the UK with 53, US with 49, China with 47 and Brazil with 30. 50 projects (+1) have been posted by sellers.

GTZ CDM capacity development

- A CDM Capacity Development workshop took place from 17-18 February in Hanoi, Vietnam with special focus on programmatic CDM. It was hosted by the Ministry of Natural Resources and Environment of Vietnam. About 70 participants' mainly local project developers and representatives of the Governmental Steering Committee of UNFCCC and Kyoto Protocol participated. GTZ presented its experiences with PoA facilitation on CFL-lamps in India and micro hydro power in Indonesia. KfW Carbon Fund presented its PoA Support Centre. Since January 2009 the CDM Highlights are edited as well in a Vietnamese Language with the number of subscribers already reaching about 60 readers!

Other news

- The Indian Ministry of Environment and Forests, Government of India, the German Federal Ministry of Environment, Nature Conservation and Nuclear Safety (BMU) and GTZ are jointly organising CARBON BAZAAR 2009 in New Delhi on April 28-29
- The World Bank, Agence Française de Développement (AFD), the Global Gas Flaring Reduction Initiative, and the Egyptian Environmental Affairs Agency (EEAA) are jointly organising the Middle East and North Africa (MENA) Carbon Forum on May 6-7 in Cairo, Egypt. Further information is available from Samira Elkhamli, selkhamli@worldbank.org
- IETA has advertised the post of a CDM/JI policy officer. Applications are due on March 20 at ammann@ieta.org

Country of the month: Georgia

Despite being a small country with a lot of economic and political turmoil, Georgia has been very involved with the Kyoto mechanisms. This is due to a high technical potential with a huge hydropower resource, leaky gas pipelines and low-efficiency housing and industry. Already in 2000, CDM workshops were held in Tbilisi. Georgian representatives have been serving on the EB (2003-2005). In 2003 the National Agency on Climate Change (NACC) was appointed as DNA; in January 2005 the DNA was shifted to the Ministry of Environmental Protection and Natural Resources. An outdated-looking but actually effective DNA website is <http://www.climatechange.telenet.ge/cdm-georgia.htm>. The baseline grid emissions factor including 2006 values is available at www.climatechange.telenet.ge/!_PIC_DOC_/EF_English.pdf. An EU TACIS project started in 2004 to support DNA rule-setting and preparation of PINs. European Bank of Reconstruction and Development, World Bank and the Danish government have been looking for projects. One project is registered (Landfill Gas, 0,3 million CERs by 2012) and 4 are under validation (4 hydro and one gas pipeline leak reduction, 2,9 million CERs). Key obstacles for CDM development in Georgia are frequent changes in projects ownership and the tendency of project owners to break forward contracts if the price has increased or they have been approached by new investors.

Number of the month

174: total of request for review and review cases dealt with by EB 45. If every case took just 7 minutes of discussion, it would take 20 hours to deal with all of them, i.e. 2 days of "normal" working time. This makes clear why the EB has to postpone so many items...

CDM counter (as of February 28, 2009)

- Pending large-scale baseline methodologies: 19
 - of which forestry: 1
- Pending small-scale baseline methodologies: 13
- Approved and published large-scale baseline methodologies: 85 (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: 20
 - of which 7 for verification
- Projects currently open for public comments on PDD: 75
 - Of which 0 is a PoA
- Projects that are undergoing and have undergone the public comment period: 3244
 - of which 36 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 91 are under completeness check
 - for 57 of which a request for review has been launched
 - of which 144 have to make corrections
 - of which 44 are undergoing review
 - of which 92 have been rejected
 - of which 578 have been submitted for public comments more than once
 - of which 25 have officially been withdrawn
 - of which 8 are PoAs
 - of which 89 apply for the Gold Standard
- Expected CERs until 2012 from those projects: 1481 million
 - of which 43 million from those that officially applied for registration
 - of those 22 million from projects with request for review
 - of which 75.1 million from projects that need to make corrections
 - of which 80.0 million from those undergoing review
 - of which 60.5 million from rejected ones
 - of which 8.5 million from withdrawn ones
- Registered projects: 1424
 - expecting 1497 million CERs by 2012
 - of which 0 are PoAs
 - of which 10 fulfil the Gold Standard
 - Host countries: 51
 - Buyer countries: 14
- Issued CERs: 262 million
 - Projects with issued CERs: 473
 - 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: ~6 Euro for post-2012 vintages, 5-7 Euro for medium-risk forwards, 7-8 Euro for low-risk forwards, 8-9 Euro for registered projects, 9-10 Euro for issued CERs, 9.5 Euro BlueNext spot price on Reuters. Please note that the market for primary CERs is currently de facto frozen!

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