

CDM Highlights 72

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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!

The CDM revives with the EB's decision to remove obstacles for programmatic CDM and an upbeat Carbon Expo fair in Barcelona. Moreover, full transparency is achieved through the publication of data on CDM projects rejected or withdrawn during the validation process, which slashed over 200 million CERs and close to 500 projects. Surprisingly stable prices for CERs bolster project development. But hot air sales from countries in transition are picking up, putting pressure on the CDM market. And the spectre of a Copenhagen failure will become more threatening during the rest of 2009.

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UNFCCC, EB and its panels

- At its 47th meeting on May 26-28, the EB took the following decisions
 - The reform of PoA rules was finally achieved. The additionality of each CPA has to be demonstrated through the eligibility criteria for inclusion of CPAs and not on the CPA level itself. CPA developers need not be formal programme participants. PoAs can use a combination of baseline methodologies but a case-by case decision is to be made by the EB before a registration request for the PoA in question can be submitted. Each combination proposal is to be checked by the Meth Panel/SSC WG/A&R WG which will lead to a further increase in workload and substantial delays in processing of PoAs. No debundling check has to be done for technologies with less than 15 kW installed capacity or 0.6 GWh annual energy savings or 0.6 ktCO₂e annual emission reductions. CPAs can only be reviewed within one year after the inclusion of CPA or renewal of the crediting period of the CPA, or six months "after the issuance of CERs for that CPA". The latter rule is unclear and potentially explosive, as this could mean rejection of a CPA at its xth issuance. Reviews can still be triggered by only one EB member. If a review has been triggered, a random sample of 10% of all CPAs currently included has to be checked by a DOE not involved in the PoA to date. The EB can "extend" the review which means that no CPAs can be added nor CERs issued and another set of 15% of CPAs is to be reviewed. Validators still remain liable for CERs issued from rejected CPAs. CPAs cannot start before the PoA has published its documents for validation. In order not to punish early starters, the EB allows PoAs submitted for validation before the end of 2009 to retroactively get CERs for CPAs starting after 22 June 2007.
 - Two new methodologies on aerobic treatment of wastewater and use of coke oven gas to produce dimethyl ether were approved. Their use is likely to remain limited.
 - Two methodologies on coal seam fire extinction and emission reduction from peatland degradation were rejected, as the EB sees no permanence of reductions and unclear anthropogenic influence on emissions. Moreover, two methodologies recommended by the Meth Panel were sent back. Applicability of a methodology for biomass use in iron production was seen to be too narrow, whereas a methodology for waste heat recovery from industry was seen as too lenient
 - AMS II.J for energy-efficient lighting has again been simplified due to constant pressure of the World Bank. The type of lamps which can be used has been expanded to cover all typical lamps. Maximum number of lamps per household is now 6. Baseline penetration is no longer taken into account and no baseline survey has to be done. Maximum daily utilization has been increased from 3.5 to 5 hours. Leakage due to loss of heat in cold regions has been eliminated and an ex-post survey can be made to determine failure rates.
 - ACM 1 for landfill gas now requires continuous measurement of methane content of landfill gas. In this context, a tool for gas flow measurement was approved.

- 4 small-scale methodologies were approved. A potentially highly replicable one is retrofit of vehicles to improve energy efficiency. However, the EB sent 3 methodologies back to the SSC WG, arguing that they did not adequately address the complexity of energy efficiency in industry and the issue of greenfield projects.
- The Secretariat checked cases where approved methodologies are not used. It found 10 methodologies that have been approved for over 2 years with 1 or zero projects. For 4 of those, the developers declared that the methodologies could no longer be used for their projects due to changes made by the CDM regulators.
- Out of 28 requests for review for registration, 13 projects will be reviewed. 15 have to make corrections which are fairly simple. Out of the reviews, 3 relate to Chinese wind and 2 to Chinese gas power plants
- Out of 31 projects under review, 8 were rejected. 4 of them are Chinese hydro and 1 a Chinese wind plant. Overestimated auxiliary consumption was the main reason, followed by problems with the baseline scenario and the barrier test. 23 projects have to make corrections, of which 21 are principally manageable. 7 Chinese wind and hydro projects have problems regarding the tariff, which was reduced compared to the situation in 2002. Project developers have to show that the tariff decrease did not change the viability of the project. This will not be easy.
- Out of 27 requests for review for issuance, 12 projects will be reviewed. 15 have to make corrections. The reviews concentrate on substantial increases in project output compared to the PDD, which is a new category and might have an impact on aggregate project performance rates, if rejections are made for overperforming projects. The salience of the issue is also shown by a “non-paper” by SGS to cap CER issuance at the level estimated in the PDD. According to SGS projects with overperformance using investment analysis for proving additionality may not remain additional any more. Moreover, nitric acid projects are reviewed due to check of the monitoring system by a non-accredited auditor. This is not consistent with the EB 46 decision not to prescribe monitoring standards in any methodology
- Of the 3 reviews of issuance, one was rejected and 2 have to make corrections. In the case of an adipic acid project in Brazil, a stringent interpretation of installed capacity has been used that includes plant downtimes. If this serves as precedent, performance rates of industrial gas projects are likely to go down. The rejection touches a bagasse cogeneration plant in Brazil that changed its project design compared to the PDD. 40,000 CERs are lost.
- The EB allowed the resubmission of a previously rejected request for issuance (17,700 CERs) for a nitric acid project in Korea.
- The decision hierarchy consists of three levels: Operational decisions on functioning of the regulatory system, regulatory decisions on project cycle modalities and rulings on project-specific issues
- For regulatory decisions, a hierarchy of four levels applies: Standards that define mandatory performance levels, procedures that define mandatory steps to achieve standards, guidelines that provide explanations how to fulfil a standard or procedure and clarifications to prevent confusion in interpreting higher-level decisions, of transitory nature
- A code of conduct was agreed which states that members should “remain silent during the Board’s deliberations and decisions as to any matter under consideration by the Board for which s/he has an actual or perceived a conflict of interest”. However, members could “exercise personal discretion in deciding whether s/he has a real or perceived conflict”. This is unlikely to change the current situation, where only a subset of EB members from industrialized countries publishes conflict of interest declarations, while host country representatives openly support projects from their countries.
- The draft rules for change of project design were agreed “in principle” and are to be finalized at the next meeting. They say that a change impacting additionality, project type or meth applicability needs to be validated and checked by the RIT before decided by the EB. EB members, particularly from countries with many projects want a differentiation between minor and major changes and a clear definition of changes covered by the rule. To avoid a case overload, only major changes should be dealt with by the EB. Some EB members proposed a de minimis threshold in terms of capacity changes. Changes not caused by project developers should be treated differently.
- The following topics were deferred: definition of common practice test and first of its kind barrier, the role of plant load factors for wind projects and the role of baseline penetration rates for efficiency projects.
- The data on projects rejected by validators and withdrawn during the validation process are now available on the UNFCCC website. These data will now be reflected in the CDM counter below, where a summary category on projects failed before registration is introduced.

Baseline and monitoring methodologies

- 12 new methodologies were submitted in the latest round. Four relate to industrial energy efficiency, three to biomass use, two to the cement sector, one each to SF₆ reduction in electricity transmission, PFC reduction in the semiconductor industry and solar water heating. The most interesting cases are benchmark approaches for the cement sector and household stoves and a methodology for refurbishment of coal power plants.

Designated Operational Entities

- China Classification Society Certification Company submitted its application
- TÜV Rheinland can now validate and verify forestry and agricultural projects.
- WWF had the five largest DOEs rated by Öko-Institut and found TÜV Nord, TÜV Süd and DNV to be slightly better than BVC and SGS, but still at a low level.

Designated National Authorities

- In the DNA host country approval hitlist, only Vietnam had a change to 92 projects (+10), 6 hydro-power, 3 wastewater and 1 waste heat recovery project. Annual CER volume of the newly approved projects is 1.7 million
- Regarding DNA investor country approval, changes were notified by Germany - 138 projects (+6) and Spain: 95 projects (+6)

Project developers and consultants

- The submission of new projects rose to 132, showing a rebound in the market. A surprising number of large new projects with novel project types has entered the pipeline
 - SF₆ reduction project in LCD production (Korea, 4.9 million CERs by 2012)
 - Coal mine methane reduction (China, 3.9 million CERs by 2012)
 - Hydropower 487 MW (Ecuador, 3.0 million CERs by 2012)
 - Wind 400 MW (China, 3.0 million CERs by 2012)
 - Gas pipeline leak reduction (Uzbekistan, 2.6 million CERs by 2012)
- The first PoA (energy efficient lighting in Mexico) has submitted its request for registration
- 57% of respondents of the IETA survey of carbon market professions expect pre-2012 CER prices to remain below 20 Euro, but the expectations about CER volumes traded have increased substantially since 2008. The two key future challenges in the CDM process were seen as uncertainties over the post 2012 regulatory regime, and the transparency and consistency of decisions made by the CDM-EB.
- According to press reports, the lobby group of CDM project developers "Project Developer Forum" has developed a code of conduct. However, the Forum's website does not provide access to this code.
- The Adaptation Fund has sold the first tranche of 0.6 million CERs at 12.2 Euro.
- While Dutch renewable energy and energy efficiency group Econcern has suspended its payments, its subsidiary OneCarbon is optimistic to find a new owner
- Trading Emissions bought back 6% of its own shares, reasoning that this was a better investment than finding new CDM projects.

Incentives for CDM investment

- Ukraine plans several mammoth AAU sales, albeit with unusual counterparties
 - The Japanese bank Nomura is negotiating the acquisition of 100-300 million AAUs with the Ukrainian government on behalf of a large consortium. This deal would be organized as a Green Investment Scheme.
 - A sale of 150 million AAUs to carbon market newcomers Dighton Carbon SA and Tawhaki International LP is proposed on Ukraine government's website. Dighton Carbon SA is listed in Geneva since February 2009. Tawhaki International is not listed on the New Zealand's companies register.

- Slovakia sold 15 million AAUs in 2008 at 5 Euro per AAU. A public outcry about the deal which involved a shady US company led to the sacking of the environment minister.
- The new Hungarian government has promised environmental NGOs to honour the Green Investment Scheme law and reinvest revenues from AAU sales into emission reduction projects
- Emissions of the companies covered by the EU ETS fell by 3.1% in 2008. 81.7 million CERs were used during this year. Allowances have increased further to 14.6 Euro for the spot market and 17.1 Euro for 2012 vintages. The spread to issued CERs has decreased to about 2 Euro. Deutsche Bank sees a 90 million EU allowance surplus in the EU ETS by 2012.
- The Australian government has caved in to industry pressure, shifting the start date of the trading scheme to July 2011 and essentially converting it into a low-level carbon tax of 5.6 Euro per t CO₂ during the first year. Moreover, free allowance allocation has increased.
- KfW and EIB have budgeted 100 million Euro for acquisition of post-2012 CERs and ERUs.
- The African Ministerial Conference on the Environment called for a more equitable distribution of CDM projects. The CDM should also include include sustainable land use, agriculture and forest management.
- The Institutional Investors Group on Climate Change (IIGCC), a lobby group of institutional investors primarily based in the UK has called for reform of the CDM and asks middle income countries, such as China and India, take on absolute binding emission reduction commitments to allow full participation in emission trading schemes.
- The highest tax rate for a CDM project to date has been levied in Uzbekistan, where according to a presidential decree the Japanese company Mitsubishi has to pay 80% of CERs generated by six nitric acid projects. Mitsubishi provides all financing for the N₂O destruction equipment.
- The Indian Central Electricity Regulatory Commission plans a regulation where 50% of CER revenues would have to be taken into account in renewable energy feed-in tariff setting, with full exemption for the first year of CER accrual and 10% stepwise increases until the fifth year. This would essentially amount to a 50% tax of CERs from renewable electricity projects in India
- The first ERUs from a JI project in Western Europe were issued to chemical company Rhodia for an industrial gas reduction project in France
- The Waxman-Markey bill survived the first committee vote in the US Congress with the limit for CER imports intact, but a scrapping of the 20% discount until 2017. weakening of the allocation and free allocation of a sizeable share of allowances
- The Brazilian environment agency requires new thermal power plants to offset greenhouse gas emissions through forest plantations – for at least 33% of offset volume – and other greenhouse gas reduction projects. This can include CDM projects. However industry lobbies claim that the agency does not have the authority to introduce such a rule.
- The lucrative practice to make up for delays in registration of CDM projects by selling pre-registration reductions on the voluntary market is jeopardized by a new Gold Standard rule. The Gold Standard will only issue pre-registration VERs in the future if an equivalent amount of CERs is cancelled starting two years after registration, in annual installments spread over the remainder of the first crediting period.
- According to the World Bank, in 2008 389 million primary CERs were sold.
- Regarding post-2012 negotiations
 - A new set of negotiation texts has been prepared for the Bonn negotiation meeting in June. A key item is a registry for policies in developing countries (so-called NAMAs). Korea, New Zealand, Norway and Saudi Arabia propose crediting of NAMAs, while Brazil opposes this.
 - The World Bank proposes technology benchmarks, deemed savings, and a positive list of specific desired activities as solutions to the additionality conundrum
 - Indonesia's Maritime Affairs and Fisheries Minister Freddy Numberi wants to include carbon sequestration in the ocean in the CDM

Web news and downloads of the month

- The latest edition of the World Bank report on the state and trends of the carbon market can be downloaded at http://wbcarbonfinance.org/docs/State___Trends_of_the_Carbon_Market_2009-FINAL_26_May09.pdf
- A handbook for developers of programmatic CDM has been prepared by Perspectives/KfW on behalf of German Ministry of Environment; it can be downloaded at http://www.kfw-foerderbank.de/DE_Home/Klimaschutzfonds/PDF_Dokumente_Klimaschutzfonds/KfW_PoA_blueprint_book_23-04-09-pdf.pdf
- Öko Institute has rated the performance of DOEs on behalf of the WWF, download at http://assets.panda.org/downloads/wwf_doe_rating___scope_methodology_and_results_final.pdf

- A background paper on the benchmarking approach proposed by the Cement Sustainability Initiative as new baseline methodology NM 302 is available at <http://cdm.unfccc.int/UserManagement/FileStorage/KZFXIDL6AU4J209P7WOIEMRSV3Q51>
- The latest status report on renewable energy in the world with a lot of data relevant for the CDM is available at: http://www.ren21.net/pdf/RE_GSR_2009_update.pdf
- The 4th GHG market sentiment survey administered by IETA is available at <http://www.ieta.org/ieta/www/pages/getfile.php?docID=3291>
- A critical analysis of the CDM by Swiss researcher Joelle de Sepibus is available at http://www.nccr-trade.org/images/stories/research/header_ip6/environmental%20integrity%20CDM.pdf
- The potential of programmatic CDM in mobilizing renewable energy projects in India is discussed at <http://www.indiaenvironmentportal.org.in/files/cdm-rea-draft.pdf>
- A story by UK's Daily Mail with scary pictures of poor people living around the site of a HFC-23 project in India and suffering from its negative impacts: <http://www.dailymail.co.uk/home/moslive/article-1188937/The-great-carbon-credit-eco-companies-causing-pollution.html>
- A scaremongering story how the Waxman-Markey bill provisions for CER imports could blow up US emissions until 2050 is available at http://thebreakthrough.org/blog/2009/05/climate_bills_offsets_provisio.shtml
- The annual report on the World Bank's carbon funds is available at http://wbcarbonfinance.org/docs/2008_Annual_Report_CF08_Final_printed_Low_Res_04-29-09.pdf
- The position paper of the lobby association of CDM project developers on CDM reform is available at http://cdm.unfccc.int/public_inputs/2009/cdmimprov/cfi/9AHLQ11PK5XTVA369R419RJ0G354D7
- The question how unused CER import quotas can be transferred between EU member states is discussed by Gorecki, Lyons and Tol; download at <http://www.esri.ie/UserFiles/publications/20090518151927/WP299.pdf>
- A report on attractiveness of forestry CDM compared to other forestry offsets is available at http://www.ecosecurities.com/Standalone/Forest_Carbon_Offsetting_Trends_Survey_2009/default.aspx
- By the end of May, 209 buyers (+3) from 35 countries (+1), 278 (+6) sellers from 60 countries (+2) and 587 service providers (+15) from 61 countries (+0) had listings on CDM Bazaar. India leads the list of service providers with 139 entries, followed by the UK with 58, US with 53, China with 48 and Brazil with 32. 55 projects (+1) have been posted by sellers.

Other news

- Carbon Expo in Barcelona was attended by about 3000 participants, showing that the crisis in the carbon market seems to be overcome.
- Former CO2e.com executive Steve Drummond has set up a new carbon market consultancy Bainton Capital Partners based in the UK
- Kenyan consultancy BEA International organizes a CDM workshop on 27-29 July 2009 in Nairobi Kenya

Country of the month: Ukraine

While not being a CDM host country, Ukraine sits on a bank of AAUs that could change the fate of the CDM market. Its total surplus is estimated to reach 2.5 billion AAUs and will increase as the economic crisis has led to a decline in industrial production by over 20%. And in contrast to most other countries in transition, Ukraine is eager to sell its AAU surplus and to host JI projects. In the late 1990s and early 2000s, Ukraine suffered from political instability that prevented a coordinated climate policy strategy. However, in the last years, this has changed. In 2005 and 2006, substantial work was done to set up an inventory system compliant with UNFCCC rules. On June 30, 2007, a National Environmental Investments Agency was founded to coordinate AAU sales and administer an eventual Green Investment Scheme (see website <http://www.neia.gov.ua/nature/control/en/index>, but only limited content). In November 2008, Ukraine set up its link to the International Transaction Log and started to transfer AAUs. 2.5 million AAUs were transferred as early credits for five JI projects. So far, 33 JI projects have been approved estimating 58 million ERUs. In early 2009, 30 million AAUs were sold to Japan and currently, two giant deals of over 250 million AAUs are under negotiation. The preparation for the GIS has started, involving over 100 projects, on the basis of decree No 221 on 'Consideration, approval, and implementation of the GIS project during the compliance period under the Kyoto Protocol to the UNFCCC' (February 22, 2008).

Numbers of the month

- 466: projects that did not survive validation (28% of registered projects)
- 211 million CERs: pre-2012 estimates of projects that did not survive validation

CDM counter (as of May 31, 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: 138 (111 host countries, 27 buyer countries)
- Companies applying to become operational entity: 12
- 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: 132
 - Of which 0 is a PoA
- Projects in the validation phase: 2736
 - Of which 69 have applied for registration since the end of the last month
 - Of which 100 are in the period where a request for review can be launched
 - Of which 117 are under completeness check
 - for 30 of which a request for review has been launched
 - Of which 76 have to make corrections
 - Of which 14 are undergoing review
 - Of which 9 are PoAs
 - Of which 92 apply for the Gold Standard
- Expected CERs until 2012 from projects at validation: 1114 million
 - Of which 55.0 million from those that officially applied for registration
 - Of those 22.0 million from projects with request for review
 - Of which 28.6 million from projects that need to make corrections
 - Of which 6.1 million from those undergoing review
- Projects that failed during validation: 607
 - Of which 112 have been rejected by the EB
 - Of which 29 have officially been withdrawn
 - Of which 117 got a negative validation report
 - Of which 349 dropped out of validation
- CER estimates until 2012 from projects failed before registration: 292 million
 - Of which 70.4 million from EB-rejected ones
 - Of which 10.5 million from withdrawn ones
 - Of which 58.8 million from validator-rejected ones
 - Of which 152.1 million from projects that dropped out of validation
- Registered projects: 1652
 - expecting 1634 million CERs by 2012
 - Of which 0 are PoAs

- Of which 10 fulfil the Gold Standard
 - Host countries: 55
 - Buyer countries: 14
 - Issued CERs: 288 million
 - Projects with issued CERs: 511
 - Of which 4 Gold Standard projects
 - Rejected requests for issuance: 10 (0.2 million CERs)
 - Withdrawn requests for issuance: 16 (1.6 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, 12-13 Euro for issued CERs, 12.5 Euro BlueNext spot price on Reuters..
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