

CDM Highlights 58

April 2008

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!

Validators have published relatively high rejection rates in an attempt to show that they take their jobs seriously. The International Finance Corporation is rolling out CER guarantees which will improve the CER price level received by large industrial CER sellers. While project inflow remains high at the UNFCCC level, first signs of a slowdown are visible on the level of host country approvals.

Anja Wucke, GTZ and Axel Michaelowa, Perspectives

UNFCCC, EB and its panels

- New EB chair M.Sethi from India outlined that his priority is to get the programmatic CDM up and running, with the EB being “proactive in solving any teething problems related to PoA”.
- The EB had its 38th meeting on March 12-14 and took the following decisions
 - Approval of two methodologies (waste heat use from sponge iron plants, energy efficient transformers), as well as a consolidated methodology for afforestation
 - Approval of a new small-scale methodology for cogeneration or centralized cooling in industry, which might pave the way for more integrated energy efficiency methodologies
 - The first small-scale methodology rejected was a submission by AgCert on separation of volatile solids in manure.
 - The methodology on emission reduction in manufacturing of wall panels which had been slated for rejection by the Meth Panel will be sent to a third desk reviewer
 - Methodology revisions were done as proposed by the Meth Panel (see last issue of the Highlights). The expansion of the wastewater methodology ACM 14 to greenfield plants could have an important impact, as this project type is widely replicable.
 - The CDM Accreditation Panel was opened to an observer from the International Accreditation Forum (IAF), which is an umbrella organization of accreditation institutions. This might be a precedent for involving institutional expertise in other panels and working groups as well.
 - The problem of values in feasibility studies differing from values in PDDs, which surfaced in the context of Chinese hydro power plants has been addressed in the way that DOEs have to ensure that the feasibility study has been the basis of decision to proceed with the investment in the project and that values used in the PDD are consistent with the feasibility study. The most critical rule is that the validator, on the “basis of its specific local and sectoral expertise” can confirm “that the input values from the feasibility study are valid and applicable at the time of the investment decision”. Whether this can also address embellished feasibility studies remains to be seen.
 - DOEs have to take into account all public comments submitted for a project. This improves transparency for the practices of the DOEs.
 - Work on the Validation and Verification Manual is progressing, with a publication for public comments scheduled in April
 - The revision of the additionality test was shifted to the next EB meeting. An important element of the revision proposal is that internal company documents would no longer be eligible evidence documents for the barrier analysis.
 - Of 17 projects with a request for review, 8 have to make corrections and 7 have been put under review. 6 of those projects have a problem regarding additionality. Three are biomass, and two hydro power projects.
 - 4 out of 11 projects under review were rejected, including a cement blending project (Mexico, lack of additionality), wastewater methane reduction (Malaysia, wrong application of the methodology) and 2 wind power projects (India, lack of additionality; Korea). The Korean project is

the first one rejected as it could not prove consideration of the CDM at an early stage, despite having passed the investment test easily.

- 1 out of 14 projects with a request of review of issuance was placed under review – a landfill gas project in Egypt due to problems with monitoring methane content of landfill gas.
- The RIT term of office has been expanded by another year; all existing members have been confirmed
- Calls for membership have been opened for all panels and working groups; they are open until April 20.

Baseline methodologies

- 10 large-scale methodologies have been submitted in the 22nd round. They are very diverse. Two each address energy efficiency (gas combined cycle plant, smelting efficiency) and transport (bus systems). Low temperature geothermal heating, Increase of electricity transmission, introduction of solar water heaters, capture of CO₂ in urea production and landfill gas use in pipelines are the other project types. A very interesting methodology addresses low-methane generating feedstock for dairy cattle.
- The radically new and simple small-scale methodology approach for demand-side electricity savings received a number of requests for improvement by the small-scale working group, but was not dismissed outright. The main request is the introduction of pre and post installation surveys, including a control group. Moreover, usage hours and failure rates are to be substantiated.

Designated Operational Entities

- Until January 2008, the five largest DOEs have rejected 369 projects during validation. This figure was published by the head of the DOE Forum in the context of the 38th EB meeting. About two thirds of the rejections were due to a lack of additionality. If one would put the number in relation with all projects registered and submitted for registration by January 2008, the share of rejections would be 32%.

Designated National Authorities

- The Tunisian DNA has set up a website in French at <http://www.cdmtunisia.tn/fr/index2.php>, an English version is planned.
- The DNA host country approval hitlist stands at
 - China: 1150 projects (+37). The new approvals include 18 hydro, 12 waste heat recovery, 6 wind and one biomass power project. Total annual CER volume is estimated at 2.9 million per year.
 - India: 870 projects (+117). The Indian DNA has tightened its rules. Information requested from project developers in the approval process and answers to questions of DNA members have to be submitted within 6 months after the meeting where the project was presented to the DNA. This even applies to projects submitted before 2006 that have to provide the information by end of April. Apparently, the DNA wants to eliminate pending submissions that are going nowhere due to inability to get validated. Moreover, all CDM consultants have now to be listed in the PDD, ending the weird practice of some Indian consultants to hide behind the project implementer.
 - Mexico: 189 projects (+0).
 - Brazil: 178 projects (+0).
 - Philippines: 55 projects (+4). Approvals include a geothermal, 2 landfill gas and one composting project, with an annual CER volume of 0.8 million.
 - Indonesia: 47 projects (+1).
 - Malaysia: 36 projects (+0).
 - Israel: 22 projects (+0). The website is running again.
 - South Africa: 18 projects (+0).
- The DNA investor country approval hitlist stands at
 - UK: 658 projects (+126). Annual CER volume is estimated at 192 million (+ 16 million)
 - Japan: 276 projects (+0)
 - Sweden: 124 projects (+0).
 - Spain: 72 projects (+5). Annual CER volume is estimated at 20.9 million (+0.4 million)

- Germany: 62 projects (+0).

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

Project developers

- 115 new projects have been submitted, as well as 40 projects that had been submitted in the past, including some going back to 2006.
- Large new projects in the pipeline are
 - Coal mine methane project (China, 4.7 million CERs by 2012)
 - Gas power plant (China, 4.2 million CERs by 2012)
 - Landfill gas project (Colombia, 2.7 million CERs by 2012)
- Nakheel, a huge real estate company in the United Arab Emirates, which is inter alia planning to build a 1 km high skyscraper, has signed a contract with Dubai Multi Commodities Centre and Eco-securities to develop CDM energy efficiency projects in its building portfolio.
- The first CDM project development company in Australia has been launched, focusing on hydro-power. Perenia is the daughter of Pacific Hydro and Snowy Mountain Engineering Corp.
- Kenyan NGOs are criticizing CDM forestry project developers offering farmers 20 \$ for 1000 trees planted.
- HSBC bank has bought a significant share in project developer Econergy
- Trading Emissions has bought back 7 million of its own shares on the assumption that they are undervalued by over 20%. However, since the buyback shares have fallen by a further 18%... Trading Emission's CER portfolio stood at 57 million, down by 3 million from June 2007.
- 3 AgCert projects from Mexico and one waste heat recovery project from India have been withdrawn

Incentives for CDM investment

- Japan is buying Polish AAUs; Spain and Ireland have publicly announced to embark on AAU acquisitions through green investment schemes with the help of EBRD.
- The International Finance Corporation has launched a guarantee of CER delivery (Carbon Delivery Guarantee) with two contracts in South Africa and India, covering 1.75 million CERs at prices above 15 Euro. IFC acts as an intermediary, selling CERs in the market, achieving a high price due to the AAA rating of IFC and passing a high share of the price back to the project developers.
- The Carbon Offset Providers Coalition, a lobby group of domestic and CDM project developers has briefed key US senators on the benefits of project-based emissions credits. So far, the leading bills in the Senate are relatively sceptical about project-based credits and want to limit them substantially.
- Several financial institutions have launched carbon market indices. Orbeo's Carbon Credit Index is based on 50% CERs and 50% EU allowances and published by Standard & Poors. Merrill Lynch's MLCX Global CO₂ Emissions Index is weighted according to the liquidity on the CER and EU allowance markets.
- Several exchanges have started CER trading, among which are London' European Climate Exchange and New York's Green Exchange
- Shortage of CERs is driving the 2008 CER contract to higher prices than 2009-12 vintages
- Greenstream Network has launched a 40 million Euro "Nordic Carbon Fund"
- The four Italian companies Sorigenia, IRIDE Group (both (electric utilities), Lucchini (steel producer) and Finopi (bank) have set up the "Green Initiative Carbon Assets" in Switzerland to acquire CERs. Overall size of the vehicle is unknown.
- In the context of post-2012 climate negotiations,
 - The South Korean government discusses a emissions stabilization target at 2005 levels. Baseline projections see emissions to increase by 38% from 2005 to 2020. Environmental NGOs call for a reduction by 20%.
 - U.S. presidential candidate McCain calls to include China and India in the post-2012 agreement.

Web news and downloads of the month

- Baker Mc Kenzie has launched the long-awaited online CDM rulebook at <http://cdmrulebook.org/>. It has both a menu-based and a full text search function. While being very useful for a general overview of CDM rules, it does not cover specific methodologies.
- The current status of renewable energy in the world is summarized in the report "Renewables status 2007", giving valuable background information on many technologies relevant for the CDM; download at www.ren21.net/pdf/RE2007_Global_Status_Report.pdf
- A very thorough study estimating post-2012 CER availability "Carbon credit supply potential beyond 2012" has been done by ECN (Netherlands) and Point Carbon, download at www.ecn.nl/publications/PdfFetch.aspx?nr=ECN-E--07-090
- The IGES databases on registered and rejected CDM projects now include very interesting information, such as steps done for the additionality test, the baseline emissions factor, annual performance and the detailed reasons for project rejection in an easy to understand format. Download at www.iges.or.jp/en/cdm/pdf/data/iges_cdm_db.zip and www.iges.or.jp/en/cdm/pdf/data/iges_rejected_cdm_project.zip
- Climate Capital Network, an online marketplace that aims to connect CDM, JI and VER investors with project developers is available at <http://www.climatecapital.net/> The founders say that over 150 investors have registered so far.
- Experiences with CDM capacity building in Yemen are described in Sieghart, L.: Clean Development Mechanism – An Experience from Yemen. Download at www.cdm-yemen.org/uploads/An-Experience-From-Yemen.pdf
- A Post-2012 Information Toolkit developed by the Dutch Environmental Research Agency allows to develop emissions scenarios and evaluate emissions reduction potential for countries. It has been built in the software package AIMMS that enables users to easily show large datasets in graphs and tables, to select variables or parameters and to create one's own datasets or graphs in a simple way and is available at www.mnp.nl/en/themasites/wab/products/Climate_Change_Miscellaneous/Information_Toolkit_for_post_2012_climate_policies.html
- "Flexible Mechanisms for Climate Change Compliance: Emission Offset Purchases under the Clean Development Mechanism", an article by two World Bank staff, focuses on legal aspects of the World Bank acquisition contracts, http://carbonfinance.org/docs/ELJ_NYU.pdf
- Position paper of the Carbon Offset Providers Coalition in the US on the role of project-based credits in the Climate Security Act: [www.carbonoffsetproviders.org/resources/COPC+Post-EPW+Comments+on+L-W++S+2191+\\$282-25-08\\$29.pdf](http://www.carbonoffsetproviders.org/resources/COPC+Post-EPW+Comments+on+L-W++S+2191+$282-25-08$29.pdf)
- By the end of March, 130 buyers (+7) from 27 countries (+0), 143 (+9) sellers from 38 countries (+2) and 348 service providers (+19) from 52 countries (+2) had listings on CDM Bazaar. India leads the list of service providers with 72 entries, followed by China with 38, UK with 35, US with 34 and Brazil with 20. 28 projects (+1) have been posted by sellers.

GTZ CDM capacity development

- GTZ supported a workshop on energy efficiency in the building sector in Tunisia, where a presentation covered the potential of CDM in providing financing for projects in the building sector
- The World Bank Institute, in coordination with Centre d'Etudes Financières Economiques et Bancaires -the training arm of the Agence Française de Développement (AFD)- and GTZ on behalf of the German Ministry of Development and Economic Co-operation, are organizing a CDM regional training workshop "How to get CDM projects through the validation process", on 21-23 April 2008 in Dakar, Senegal. This learning event will bring together project developers that are in the process of developing CDM projects, DOE and local consultants to discuss issues listed above in french language. The event targets African French speaking countries: Senegal, Mali, Benin, Cote d'Ivoire, Togo, Burundi, Burkina Faso, Mauritania, Rwanda, Niger, Cameroun, and Mauritius. See www.cfassist.org
- Lia Sieghard, a German expert co-financed by the Centre of International Migration and Development (CIM), is working at the Yemen DNA. CIM is an integral part of the German Technical Co-operation. Experiences with CDM capacity building in Yemen are described in Sieghart, L.: Clean Development Mechanism – An Experience from Yemen. Download at www.cdm-yemen.org/uploads/An-Experience-From-Yemen.pdf.
- A project to implement 2000 biogas digesters in Kenya under using the CDM 'Programme of Activities' (PoA) framework is posed to achieve important development goals such as increasing the access to clean cooking energy, improving health conditions and reducing the use of non-renewable

biomass. On behalf of the BMZ, GTZ is conducting a feasibility study for this project, which will focus on biogas technology for small farmers who have 5 to 10 cattle that are kept in stalls. Conditions in diverse regions of Kenya are suitable for biogas utilisation, according to the study authors, and even households with just two or more cattle could benefit from a biogas digester. The main barrier to biogas is the high up-front investment, so to make 2000 biogas digesters possible, local technicians have to be trained, support networks and institution need to be built up, and favorable business conditions need to be established before farmers can afford the investment for a biogas digester.

Country of the month: Tunisia

Tunisia has been active relatively early in the CDM history, with the DNA set up in early 2005. The DNA first requires a PIN which is evaluated within 15 days. Once the PIN is accepted, a PDD has to be submitted which will be checked within 45 days. So far, no project has gone through these procedures; the two registered landfill gas capture projects were approved before the procedures were put in place. The DNA has an elaborate set of procedures to determine project impact on sustainable development. It is one of the very few countries that quantifies sustainability criteria; the 15 criteria are assessed on a scale of 0 to 10. Within each subcategory of criteria, there is a different weighting. Some criteria partially conflict with CDM rules. For example, a payback period of less than 2 years and an IRR of over 40% both earn 10 points – such projects would however normally not pass the additionality test. As however projects only have to achieve an overall score of 1.5 to pass the test, it is not overly strict. Currently, a solar water heater project is under preparation; promising potentials in wind energy (several hundred MW), gas flaring reduction and the chemical industry have not yet been tapped. This is mainly due to institutional rivalries. JBIC has provided a loan of 19 million Euro for reforestation of 14,000 ha and wants this project to be submitted under the CDM. A few small lokal CDM consultancies exist (APEX, GEREP Environnement)

Number of the month

369: projects rejected by the five largest validators until January 2008

CDM counter (as of April 1, 2008)

- Pending large-scale baseline methodologies: 28
 - of which forestry: 1
- Pending small-scale baseline methodologies: 6
- Approved and published large-scale baseline methodologies: 74 (including 14 consolidated ones)
 - of which forestry: 10 (including 1 consolidated one)
- Approved and published small-scale baseline methodologies: 33
- Notified DNAs: 128 (102 host countries, 26 buyer countries)
- Companies applying to become operational entity: 25
- Accredited operational entities: 18
 - Of which 7 for verification
- Projects currently open for public comments on PDD: 154
- Projects that are undergoing and have undergone the public comment period: 2287
 - Of which 85 have officially applied for registration
 - for 28 of which a request for review has been launched
 - Of which 69 have to make corrections
 - Of which 6 are undergoing review
 - Of which 63 have been rejected
 - Of which 14 have officially been withdrawn

- Of which 314 have been submitted for public comments more than once
 - Expected CERs until 2012 from those projects: 1352 million
 - Of which 47.9 million from those that officially applied for registration
 - Of which 90.2 million from projects with request for review and corrections requested
 - Of which 1.0 million from those undergoing review
 - Of which 45.4 million from rejected ones
 - Of which 4.7 million from withdrawn ones
 - Registered projects: 978
 - expecting 1225 million CERs by 2012
 - Host countries: 50
 - Buyer countries: 20
 - Issued CERs: 132.8 million
 - Projects with issued CERs: 319
 - CER price: 1.5-5 Euro for post-2012 vintages, 6-8 Euro for medium-risk forwards, 9-12 Euro for low-risk forwards, 10-14 Euro for registered projects, 13-15 Euro for issued CERs, 15.7 Euro spot price on Nord Pool exchange
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