

CDM Highlights 57

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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!

Conflicting forces are pulling the CDM. Record oil and EU allowance prices push CER prices upwards. A hardening of the EU stance regarding CDM after 2012 and the suspension of AgCert shares as well as increasing uneasiness regarding hydropower projects generate jitters in the market. Project inflow is not impacted by these developments so far – the number of projects in the pipeline has crossed the 3000 mark.

Anja Wucke, GTZ and Axel Michaelowa, Perspectives

UNFCCC, EB and its panels

- UNFCCC Secretary General Yvo de Boer has called for an unlimited use of the CDM and its expansion after 2012
- The Meth Panel met from February 4-8 and made the following recommendations
 - Approval of two methodologies (waste heat use from sponge iron plants, energy efficient transformers)
 - Rejection of 4 methodologies (SF₆ reduction in LCD manufacture, gas pipeline leak reduction, hydropower, manufacturing of wall panels)
 - Out of 8 revision requests, 5 should be rejected while 3 should be approved. ACM 12 shall be expanded to cover mechanical energy and projects that increase waste gas use while ACM 6 is expanded by a new scenario
 - AM 34 for nitric acid plants now should require monitoring of all parameters every 2 seconds
 - AM 37 for gas flaring reduction now should discount emissions reductions occurring in Annex I countries through replacement of chemical plants there
 - Applicability of ACM 14 for methane recovery from wastewater should be expanded to greenfield plants
 - The biofuel methodology revision could again not be finalized
 - In case of SF₆ reduction methodologies, intentional increase of baseline emissions has to be avoided by robust procedures
 - In case of co-production of several products, project emissions should not be attributed to the main product only, but should be apportioned between the main product and the byproducts
 - The barrier test shall be strengthened in case of greenfield projects that are highly financially attractive

Baseline methodologies

- Three small-scale methodologies have been submitted (biomass use for cooking stoves, cable car transport and N₂O reduction from agricultural soils).

Designated Operational Entities

- Ernst & Young's French branch is applying for DOE status. Given that Ernst & Young India is heavily involved in project development, it remains to be seen how the division of labour will be guaranteed.

Designated National Authorities

- The Swiss DNA is now issuing approval letters to non-Swiss companies. This means that companies from the EU, where delivery of CERs into national registries will only be possible from early 2009 can now trade via accounts in the Swiss registry. Switzerland is thus likely to become the CER delivery hub of the world.
 - DNA host country approval hitlist stands at
 - China: 1113 projects (+45). The new approvals include 26 hydro, 6 waste heat recovery, 7 wind, 2 biomass power projects and cement blending, and 1 gas power plant and coal mine methane project. Total annual CER volume is estimated at 7.3 million per year. The Chinese price floor is now differentiated according to project types. For example, wind projects have to achieve a price of 9 Euro, 1 Euro higher than the standard price. Recent transactions have been done at higher prices, e.g. a waste heat recovery project in Anshan steel works recently sold 13 million CER forwards for 11 Euro/CER. The Chinese DNA officially announced that it was not involved in a specific carbon fair which had listed DNA officials as speakers, showing the wild west nature of some Chinese CDM developers
 - India: 753 projects (+0). The Indian DNA is lobbying for a change in the forestry thresholds to include forests with a low crown cover (15% instead of the current 30%) and small trees (2 metres instead of 5), apparently in a move to allow agroforestry with shrubs such as Jatropha
 - Mexico: 189 projects (+5).
 - Brazil: 178 projects (+3). One nitric acid, one hydro and one landfill gas project have been added.
 - Philippines: 51 projects (+24). Approvals include 21 wastewater projects and 3 bioenergy projects with an annual CER volume of 0.4 million.
 - Indonesia: 46 projects (+22). New approvals include 5 composting, 3 landfill gas, biomass power and wastewater, 2 hydro and fuel switch one geothermal project.
 - Malaysia: 36 projects (+0).
 - Israel: 22 projects (+0). The website is currently devoid of any information.
 - South Africa: 18 projects (-1). One approval letter has been withdrawn.
 - The DNA investor country approval hitlist stands at
 - UK: 532 projects (+0). The DNA has developed guidelines for hydro projects > 20 MW. It requires a finalized validation report. If further changes are made to the PDD or the validation report a new request for a LoA will need to be made. Key project documentation (e.g. social and environmental impact assessments) has to be made publicly available before a decision to start construction. A stakeholder forum with broad local and indigenous community and participation has to be held. Impacts of modifications to flow or water quality on biodiversity, habitats and on communities and measures taken to minimise the impact of reduced flow in the affected river have to be described. Moreover, the developer has to ensure that relevant laws, regulations, agreements (including resettlement and compensation agreements) and recommendations are followed. Project developers can hire a DOE to validate conformity with these guidelines. See <http://www.defra.gov.uk/environment/climatechange/international/kyotomech/documents/cdmapproval-guidance.pdf>
 - Japan: 276 projects (+0)
 - Sweden: 124 projects (+16). All new projects are hydro from China (annual CER volume +0.6 million)
 - Spain: 67 projects (+0)
 - Germany: 62 projects (+2). Two hydro projects were added.
- Please note that large projects may be approved by more than one investor country!

Project developers

- Inflow into the project pipeline has increased again somewhat. Three projects from the United Arab Emirates have been submitted, marking the serious entry of the Middle East.
- Large new projects in the pipeline are
 - Wind power plant 300 MW (China, 3.6 million CERs by 2012)
- French company Rhodia has earned 189 million Euros through CER sales in 2007, more than 20% of the company's total profit.
- Despite substantial problems with monitoring, which led to a two year delay and two confidential requests for deviation from the monitoring methodology, the Rang Dong gas flaring reduction project has been issued 4.5 million CERs.

- Ecoscurities could not execute a large CER sales contract because the buyer was unable to get an account for CER delivery. Total losses for 2007 reached 45 million Euro, more than doubling compared to 2006. The total CER portfolio is estimated at 130 million, post-2012 CERs at 103 million. On these announcements, share price fell by 17%
- Tricorona's CER portfolio is estimated at 68 million by the end of 2007.
- AgCert shares have been suspended from trading and the company is now under "examinership" in Ireland, meaning that bankruptcy is likely in the near future.
- Italian CER buyer ENEL sees Chinese wind projects as going forward anyway due to expectations about increasing subsidies for renewable energy. Formally, additionality criteria are fulfilled because at current electricity sales contract prices, the IRR of wind projects is looking unattractive. In a similar vein, the key Chinese climate negotiator Gao Guangsheng stressed that 90% of the funding for Chinese wind projects came from domestic sources.

Incentives for CDM investment

- The EU Commission has hardened its stance regarding CDM after 2012. Commission representative Slingenberg stated that CERs should be calculated on the basis of very stringent benchmarks and therefore only cover part of the emissions reductions, thus advocating a de facto discount of CERs. Nevertheless, the CER price has increased, reaching over 15 Euro in early March, while 2008 EU allowance prices have increased to 22 Euro due to record high fossil fuel prices.
- The JISC has rejected the second JI project submitted for determination, casting a chill on the JI market.
- Russia now accepts JI project proposals. The ERU sales limit (see last issues) is now reported at 300 million ERU, but seems flexible, so will not restrain JI sales. The largest share of Russian ERUs is expected to come from gas leak reductions in pipelines, which may face challenges in additionality determination.
- The Dutch government has reduced its CER/ERU acquisition target to 75 million. Therefore, parliamentarians want to reduce the CER/ERU acquisition budget by 120 million Euro.
- The UK government has published its draft greenhouse gas offset code, limiting it to CERs. VERs might be included at a later stage, provided they can show additionality and safeguards against double counting through a standard.
- Spain is increasing the budget of the Spanish Carbon Fund by 70 million Euro
- Finland has reserved 30% of its CER/ERU acquisition budget of 100 million Euro for post-2012 CERs.
- Norwegian prime minister Stoltenberg has called for inclusion of CCS in the CDM and confirmed a zero emissions target for Norway in 2030, if a stringent international agreement can be achieved.
- The Canadian government allows companies to use the CDM to reach their 18% emissions intensity improvement target by 2020.
- Australia is setting up a "Papua New Guinea-Australia Forest Carbon Partnership", mainly aiming at avoidance of deforestation.

Web news and downloads of the month

- Technology transfer through the CDM is addressed in two papers:
 - Seres, Stephen: Analysis of Technology Transfer in CDM projects, <http://cdm.unfccc.int/Reference/Reports/TTreport/report1207.pdf>
 - The North-South Transfer of Climate-Friendly Technologies through the Clean Development Mechanism, <http://www.cerna.ensmp.fr/Documents/AD-MG-YM-ReportMDM.pdf>
- Taylor, Robert; Govindarajalu, Chandrasekar; Levin, Jeremy; Meyer, Anke S; Ward, William: Financing energy efficiency: lessons from Brazil, China, India, and beyond, http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2008/02/18/000333037_20080218015226/Rendered/PDF/425290PUB01ISBN11OFFICIAL0USE0ONLY10.pdf
- Kollmuss, Anja; Zink, Helge; Polycarp, Clifford: Making Sense of the Voluntary Carbon Market. A Comparison of Carbon Offset Standards, download at http://assets.panda.org/downloads/vcm_report_final.pdf
- The useful guide CDM in Charts 5.0 is available at <http://www.iges.or.jp/en/cdm/report.htm>
- By the end of February, 123 buyers (+9) from 27 countries (+0), 134 (+10) sellers from 36 countries (+1) and 329 service providers (+23) from 50 countries (+2) had listings on CDM Bazaar. India

leads the list of service providers with 70 entries, followed by China with 38, US and UK with 32, and Brazil with 19. 27 projects (+0) have been posted by sellers.

Further news

- The Carbon Markets Insights fair in Copenhagen on March 11-12 drew over 1600 participants, again setting a new record for attendance

Region of the month: The CDM host country world

Given the increasing discussion about an impending market overhang, this month we want to look at the overall CER supply situation of CDM host countries in the medium and long term. Project inflow continues in high numbers, while expected pre-2013 CER inflows have fallen from around 60 million per month to 40 million in recent months. In the last three years, the project pipeline has expanded by 800 million pre-2013 CERs annually. Annual CER issuance reached 28 million in 2006 and 75 million in 2007.

Future CER supply obviously depends strongly on the incentives set by the regulatory environment, i.e. definition of additionality, project rejection rates by validators and the CDM EB and delay caused by requests for review. In the long run, the key driver will be overall demand for CERs that is determined by the gap between business-as-usual emissions and emissions commitments. Michaelowa estimates CER supply by end 2012 to reach 1.9 to 4.4 billion, depending on the parameter value discussed above. Recently brokers have become more pessimistic due to increasing delays in the regulatory process. In mid March Noble Carbon's Olaf Kallinich estimated a volume of only 1.5 billion.

In the long run, CDM potential is much larger than the current project pipeline would suggest. Mc Kinsey has developed a global marginal abatement cost curve for 2030. Given their estimate that in 2030 57% of global emissions are coming from non-Annex I countries and applying this percentage on the abatement cost curve to derive the CDM potential, annual CER potential from non-additional projects (projects with negative abatement costs) reaches 2.9 billion, while projects with costs between 0 and 25 Euro per CER could mobilize another 10 billion CERs. Overall annual potential at prices below 40 Euro per CER is estimated at 15.7 billion.

Vattenfall has calculated sector-specific abatement potential for 2030 at costs lower than 40 Euro per t CO₂. In non-Annex I countries, it finds 3 billion in industry (1.5 billion in China), 2.7 billion t annual potential in the power sector (of which 1.7 in China), 1.5 billion in buildings (0.7 billion in China), 6.5 billion in forestry (none in China), 1.1 billion in agriculture (0.3 billion in China), 0.7 billion in transport (0.3 billion in China). Total volume thus would reach 15.5 billion. Even if one assumes that non-monetary barriers will prevent mobilization of a significant part of the potential, the results show that safeguarding additionality is important and that fears of exhausting low-cost emissions reduction potential are unfounded.

Obviously, in a post-2012 world some advanced developing countries will join the group of countries with commitments and therefore CDM potential will be reduced. Nevertheless there is a CDM potential of two orders of magnitude higher than today's CER issuance would suggest.

Background material:

Vattenfall (2007): Climate Map 2030, download at http://www.vattenfall.com/www/vf_com/vf_com/Gemeinsame_Inhalte/DOCUMENT/360168vatt/386246envi/643012clim/P02.pdf

Mc Kinsey (2007): A cost curve for greenhouse gas reduction, The McKinsey Quarterly 2007, 1, p. 35-45, download at <http://berc.berkeley.edu/flyers/McKinseyQ.pdf>

Michaelowa, Axel (2007): How many CERs will the CDM produce by 2012?, download at <http://www.climatestrategies.org/uploads/cer-generation-cs9-07.pdf>

Number of the month

3082: projects in the UNFCCC pipeline (registered and submitted for validation)

CDM counter (as of March 1, 2008)

- Pending large-scale baseline methodologies: 25
 - of which forestry: 3
- Pending small-scale baseline methodologies: 7
- Approved and published large-scale baseline methodologies: 73 (including 14 consolidated ones)
 - of which forestry: 10
- Approved and published small-scale baseline methodologies: 31
- 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: 115
- Projects that are undergoing and have undergone the public comment period: 2202
 - Of which 57 have officially applied for registration
 - for 23 of which a request for review has been launched
 - Of which 55 have to make corrections
 - Of which 11 are undergoing review
 - Of which 59 have been rejected
 - Of which 9 have officially been withdrawn
 - Of which 276 have been submitted for public comments more than once
- Expected CERs until 2012 from those projects: 1340 million
 - Of which 30.3 million from those that officially applied for registration
 - Of which 87.6 million from projects with request for review and corrections requested
 - Of which 5.8 million from those undergoing review
 - Of which 43.2 million from rejected ones
 - Of which 2.4 million from withdrawn ones
- Registered projects: 948
 - expecting 1200 million CERs by 2012
 - Host countries: 50
 - Buyer countries: 20
- Issued CERs: 126.6 million
 - Projects with issued CERs: 306
- 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, 15.5 Euro spot price on Nord Pool exchange

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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