

Dear reader!



The curtain rises for an exciting climate policy autumn. The annual play “High hopes - hard landing?” starts with the climate policy talks in Panama. The first actors have already started to assume their well-known roles. Will the last act, COP 17 in Durban, end as a tragedy or have a happy ending? Or are we waiting for Godot? Will we witness a deviation

from the script we have got used to since the big Copenhagen tragedy? Be it a big bang or muddling through - the coming months will further narrow down the path for the future 5-10 years of climate policy.

While CDM project developers experience record levels of assignments and the project pipeline increases at record speed, the CER market unravels. In August, for the first time, secondary CERs have fallen below the magic threshold of 8 Euro, which is the Chinese floor price. It will also be interesting to see how the UNFCCC Secretariat copes with the flood of projects and programmes; processing times creep upwards.

On the eve of our 100th issue we again ask you to share your views on:

- **the most important development of the CDM in the past 8 years;**
- **the greatest challenge for the CDM today, and;**
- **the key question that new market mechanisms have to tackle.**

Please send your inputs in the form of short bullet points to the editors at climate@giz.de before 30 September. The most interesting answers will be selected for publication in the 100th anniversary issue in October.

Friedel Sehleier, GIZ
Axel Michaelowa, Perspectives GmbH

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Number of the month

7.6 € lowest price secondary CERs were ever traded at, on August 5.

Designated Operational Entities

Companies applying to become operational entity: 11

- Accredited operational entities: 39
- of which 14 from host countries
 - of which 25 from buyer countries
 - of which 39 for verification
 - 10 DOEs have withdrawn
 - 0 DOEs are suspended

Designated National Authorities

The DNA approval stands at:

- China: 3154 projects (+49) including 23 wind power, 14 hydro, 5 biomass, 2 landfill, 1 solar PV, 1 waste heat recovery, 1 coal mine methane, 1 solar cooker and 1 biogas project (10.6 million CERs per year)
- India: 2069 projects (+36)
- Brazil: 265 projects (+0)
- Vietnam: 176 projects (+13)
- Thailand: 138 projects (+0)
- Indonesia: 104 projects (+0)
- Philippines: 64 projects (+0)
- Colombia: 62 projects (+0)
- Peru: 39 projects (+0)
- Argentina: 36 projects (+2)
- Israel: 32 projects (+0)

Notified DNAs: 158 (126 host countries, 32 buyer countries)

UNFCCC, CDM-Executive Board and its panels

- UNFCCC negotiations will continue on 1 – 7 October in Panama City. Parties have started to point out their positions. Ministers of the BASIC group underlined that an agreement on a second commitment period to the Kyoto Protocol should be the central priority for Durban. They stressed that the continuation of the CDM would depend on the adoption of firm targets by industrialized countries. The European Union reiterated its openness to a second Kyoto commitment period of the, under the condition that commitments are forthcoming from other major emitters.
- Continuing the new approach of in-depth consultation with CDM stakeholders, the UNFCCC Secretariat held an integrated workshop on seven proposed standards from 24 – 26 August in Bonn. Four standards dealt with PoA issues (use of multiple methodologies, definition of eligibility criteria, additionality determination, sampling), whereas three dealt with the general process (project participants requirements, validation and verification standard, and project cycle procedures). The workshop, which focused on the PoA standards, engaged in detailed discussions and even drafting groups on textual improvements. It seems that multiple methodology use in PoAs will be accepted if project developers show how cross effects between methodologies are addressed. Moreover, a list of eligibility criteria for CPA inclusion found a lot of support. While the sampling standard was also generally seen as positive, some stakeholders feared that check of minimum qualifications of data collection personnel would become burdensome. The proposed distinction of additionality testing between PoAs based on policies and those focusing solely on measures was opposed by the project developers. The workshop confirms the trend toward joint development of policy guidance between CDM stakeholders and the UNFCCC Secretariat.
- At its 51st meeting, the Meth Panel proposed approval of five and rejection of two new methodologies. This was the most favourable recommendation for a very long time. Methodologies evaluated positively include waste heat gas utilisation (two methodologies), efficient power transmission lines, PFC reduction in semiconductor production and biomass co-firing in boilers (here consolidation with an existing methodology is planned). The transmission line methodology uses a simulation model for calculation of baseline transmission losses, which is remarkable as CDM regulators have been viewing simulation models with great scepticism in the past. Methodologies evaluated negatively relate to energy efficiency improvement in iron production and N₂O reduction from chemical industry. Two tools for road transport emissions and emissions from composting have been proposed. Four revision requests for existing methodologies have been evaluated negatively, while the Panel recommended a revision of biomass methodology ACM 6 that would allow firing of fossil fuels for up to 80% of energy input compared to 50% previously. Furthermore, a revolutionary revision of methodology ACM 16 for public transport has been proposed. It eliminates the need to test additionality for projects in LDCs and assumes additionality if CER revenues surpass a certain share of operating expenses of the new transport system. Moreover, monitoring frequencies are massively reduced. Standardized baselines factors are to be developed for the grid emissions tool, the refrigerator methodology AM 70, the buildings efficiency methodology AM 91 and biomass waste methodology AM 57. In an assessment critical for PoAs, the Panel stresses that CPAs should be homogeneous or at least for each class of CPAs distinct eligibility criteria should be defined.
- While the processing of registration requests at the UNFCCC Secretariat runs smoothly at the statutory timelines, processing times for issuance requests have increased by one week compared to the record low of 18.6 days reached in June.

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Other news

The webinar “Navigating the Kyoto project-based mechanisms” offered by the World Bank will reopen on 3 October 2011 – further information is available at: www.einstitute.worldbank.org.

The UNFCCC has started a CDM photo contest – submit your impressions until 15 October at: www.cdm.unfccc.int.

CDM counter

as of 31 August 2011

- Methodologies

Pending large-scale baseline methodologies: 17
- of which forestry: 1

Pending small-scale baseline methodologies: 5

Approved and published large-scale baseline methodologies: 108 (of which AM0001 is currently put on hold, including 20 consolidated ones)
- of which forestry: 13 (including 2 consolidated ones)
Approved and published small-scale baseline methodologies: 78
- of which forestry: 7

- Project pipeline

Projects currently open for public comments on PDD: 190
- of which 13 are a PoA

Projects and PoAs in the validation phase: 3439
- of which 81 are in the period where a request for review can be launched (incl. 1 PoA)
- of which 217 are under completeness check
- of which for 60 a request for review has been launched
- of which 3 have to make corrections
- of which 0 is undergoing review
- of which 110 are PoAs
- of which 144 apply for the Gold

Discussion on new market mechanisms

- Although the regulatory framework for NAMAs is still embryonic, several countries have already started to develop national programmes. In order to make them a proper instrument of the future international climate policy regime, special emphasis should be put on gaining common ground for a practicable MRV approach. The latter is underlined by a comparative evaluation of 16 pilot NAMAs, which is available at: www.jiko-bmu.de.
- The intergovernmental Nordic group on climate change has published a report on setting up climate finance for NAMAs in developing countries for the cases of Peru and Vietnam - see www.nefco.org (2.2 MB).
- The Indian Carbon Market Conclave, held in New Delhi in early September, put special emphasis on the development of domestic offsetting schemes, including white certificate schemes such as the Indian Perform Achieve and Trade (PAT) Scheme. Domestic schemes are under development in numerous developing countries and may affect activities covered under the CDM so far.
- Interesting insights on reaching consensus for domestic market-based climate policy instruments can be gained from the Tokyo Cap-and-Trade Programme for the building sector see: www.tandfonline.com.
- Cambodia, Papua New Guinea, the Philippines, Paraguay and Solomon Islands have joined the UN-REDD Programme. 12 of the 13 UN-REDD Programme partner countries with national programmes approved by the UN-REDD Programme Policy Board are now conducting further stakeholder engagement and consultation, begin developing capacities, and design the main technical elements needed to implement REDD+ activities in the country. A discussion on how to involve stakeholders is available at: www.unredd.net (2.5 MB).
- A REDD+ project database has been set up by IGES – see www.redd-database.iges.or.jp.
- Five new projects entered the Japanese bilateral mechanism – four on REDD and one on N2O reduction.
- The Australian parliament has passed a bill on generation of domestic agricultural offsets under the “Carbon Farming Initiative”. For details see www.carbonmarketinstitute.org.
- In order to participating in future bilateral market mechanism schemes Turkey is considering to set up a carbon exchange.
- The Exchanges ICE and Green Exchange as well as Barclays Capital have set up first Californian Carbon Allowance (CCA) future contracts. Initial trades started in late August. The Californian scheme is expected to commence action from 2013 onwards and is currently the most serious attempt within the US to implement a cap and trade scheme.

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Supporting up-scaling of mitigation through programmes and bundles

- In August, 12 PoAs entered the validation pipeline – four energy efficiency programmes, three methane avoidance activities, three solar energy and two hydro power programmes.
- Regarding the submissions China leads with 15 PoAs before India (14) and South Africa (13). In total, 38 host countries are involved, of which 9 are Least Developed Countries.
- In terms of technologies, demand & supply side energy efficiency measures lead with 46 PoAs, followed by biogas (35) and renewables (30).
- Seven new CPAs were included in the CFL lighting PoA “Bachat Lamp Yoyana” in India in August, adding some 2.2 million CERs expected by 2020 to the programme.

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Standard

Expected CERs until 2012 from projects at validation: 639 million
- of which 27.3 million from those that officially applied for registration and 13.3 million from projects with request for review
- of which 1.1 million from projects that need to make corrections
- of which 0 million from those undergoing review

Projects that failed during validation: 1408
- of which 200 have been rejected by the EB
- of which 53 have officially been withdrawn
- of which 190 got a negative validation report
- of which 965 dropped out of validation

- Registered Projects and CER Issuance

CER estimates until 2012 of projects failed before registration: 610 million
- of which 104.8 million from EB-rejected ones
- of which 23.5 million from withdrawn ones
- of which 76.8 million from validator-rejected ones
- of which 404.7 million from projects that dropped out of validation

Registered projects: 3406
- expecting 2094 million CERs by 2012
- of which 11 are PoAs
- of which 31 fulfil the Gold Standard
- Host countries: 71
- Buyer countries: 20

Issued CERs: 708 million
- Projects with issued CERs: 1155 - of which 12 Gold Standard projects
- Rejected and not resubmitted requests for issuance: 30 (6.3 million CERs)
- Withdrawn and not resubmitted requests for issuance: 31 (7.2 million CERs)

The CDM in Least Developed Countries and Sub-Saharan Africa

- Danish carbon manager Frontier Investment Management is setting up a 100 million Euro post 2012 CDM fund, for which 60 million have already been collected. The fund shall finance projects in LDCs in Sub Saharan Africa, with a main focus on greenfield renewable energy.
- The World Bank announced the start of a new post 2012 carbon fund. The 95 million Euro Carbon Initiative for Development (CI-Dev) fund will comprise investments in capacity building measures and up-front payments for CDM projects in LDCs. 37 million Euro will be used for up-front financing, 7 million for capacity building and the rest for classical forward contract payments.
- 1 LDC project entered the pipeline in August:
>Makeni power project (Sierra Leone, project start in 2013)

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GIZ CDM Capacity Building

- Tunisia had its first PoA registered in July. The program is called PROSOL which stands for the French name of “Solar Water Heater Installation Program”. It targets the residential sector and is coordinated by the National Agency for Energy Conservation (ANME). GIZ on behalf of the German Federal Ministry for Economic Development and Cooperation (BMZ) has supported the Tunisian project owners from the beginning, providing the expertise for the program development (PDD) and validation. Training and capacity development on PoA has been provided throughout the program design and development process for ANME and other involved actors.

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Project developers, operational entities and consultants

- In July, 193 projects entered the pipeline – the highest number ever! The largest two are:
>Jinzhong Coal Mining Area Ventilation Air Methane Destruction Project (China, 1.8 million CERs by 2012)
>Yangquan Coal Mining Area Ventilation Air Methane Destruction Project (China, 1.3 million CERs by 2012)
- India has submitted an official note to the UNFCCC Secretariat warning against a revision of the HFC-23 methodology that would stop issuance of CERs or prevent renewal of crediting periods. This increases the pressure on the EB not to clamp down on HFC projects.
- The NEFCO Carbon fund has contracted nine CDM projects in India and Vietnam as well as a JI project in Ukraine with an overall volume of 3.8 million credits.
- The Norwegian DOE DNV is ramping up its staff capacities to cope with the increasing number of projects starting the validation process with a view to get registered before January 2013.
- Chinese utility Datang entered into a joint venture with European project developer Mercuria in order to collaborate in the Chinese carbon market.

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CER price

7.5 -8.5 Euro for high quality post-2012 vintages,
7-8.5 Euro for medium-risk forwards,
8.5-10 Euro for low-risk forwards,
9-10.5 Euro for registered projects,
9 Euro Bluenext spot price.

CDM Bazaar

By the end of August, 244 buyers (-1) from 38 countries (+0), 354 (+0) sellers from 70 countries (+0) and 722 service providers (+3) from 68 countries (+1) had listings on CDM Bazaar.

India leads the list of service providers with 162 (-1) entries, followed by the UK with 71 (+0), China with 68 (+1), US with 66 (+1), and Brazil with 32 (-1). 81 projects and project ideas (+0) have been posted by sellers.

GIZ Climate Protection Programme

The GIZ Climate Protection Programme is being carried out on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ). More information at www.giz.de.

Table of acronyms

Please click here for an explanation of all acronyms used in this newsletter: www.giz.de (40 KB).

Incentives for CDM investment

- The price for EUAs was 12.8 Euro for the spot market. The spread to issued CERs was 3.8 Euro. At ECX, 2012 EUAs closed at 13.5 Euro. In early August secondary CER prices fell below the Chinese price floor – for the first time ever. This trend was mainly caused by increased EUA supply due to auctioning activities in Germany, the UK and Greece as well as a high CER and ERU issuance. Over the rest of August prices were able to recover and climbed to average levels of the last months. However, the market remains volatile.
- China has revised its national rules for CDM projects. In order to obtain a letter of approval, project participants now need to submit their applications through a local DNA branch first, causing an additional processing time of three weeks. Exemptions are made for 41 state owned enterprises. This move serves as direct capacity building on carbon market procedures for local governmental staff. Hence, this revision must be seen in the light of China preparing for a domestic carbon market. In addition, the tax levels for two project types have been adjusted – the levy for projects reducing N₂O emissions from nitric acid production has been reduced from 30% to 10% of CER sales, the tax on CER revenues from perfluorocarbon projects is now 5% (down from 65%). Tax rates for any other type of project remain unchanged. Furthermore, it was decided that credits generated post 2012 from currently approved projects shall not be eligible for trading unless approved by the DNA.
- Ukraine and Romania have been banned by the UNFCCC's Kyoto Compliance Committee from trading AAUs and ERUs due to incorrect reports on the national GHG emissions. The ban will only be lifted if the countries deliver revised reporting documents, which is likely to take months.
- Russia is increasing the pace of ERU issuance under JI projects – more than 70% of the 17.6 million Russian ERUs issued in total have been issued over the past two months. The country has so far approved 33 projects that expect to generate some 80 million ERUs. A new tender accounting for further 70 million ERUs has just recently been opened. Critical observers highlight the lack of transparency regarding the selection process of projects.
- Due to the growing gap between Austria's rising emissions and its Kyoto target, the Federal Environment Agency expects that further 30 million tCO_{2e} have to be purchased through the governmental procurement programme.
- The Spanish government has drafted regulation for a sustainable economy carbon fund, which shall invest in both international and domestic offsetting schemes (both Kyoto mechanisms and voluntary markets), in order to make the country more flexible in obtaining credits for its national compliance target under the EU 20% target. So far, Spain has relied mainly on World Bank and EBRD managed funds for receiving credits.
- Finnish investment Company Greenstream has moved forward the closure date of two of its funds that involve post 2012 CERs due to the risk of not getting projects registered before 2013. The funds had just recently been launched and attracted some 50 million Euro.
- The third tranche of the World Bank's BioCarbon Fund has received subscriptions of 21 million Euro for afforestation and reforestation projects.
- The Asian Development Bank (ADB) and the Institute for Global Environmental Strategies (IGES), in collaboration with the UNFCCC Secretariat, have jointly conducted a workshop on enhancing the regional distribution of CDM projects, focussing on countries with less than 10 registered projects. The workshop included bilateral consultation of project developers from the respective countries.
- Details of a horse trade between designated EU member country Croatia and the EU Commission leaked – in case Croatia is not meeting its Kyoto target of -5%, the EU will offer a loan of up to 7 million AAUs from the surplus of the EU 15 member countries. In turn, Croatia would need to increase its domestic 2020 target accordingly.

Web news and downloads of the month

- Wikileaks has released a US diplomatic cable focussing on non-additionality of CDM. The document available at www.wikileaks.org originated in July 2008 from the US Consulate in Mumbai and was sent to the Department of Energy in Washington. It describes the hostility of Indian businesspeople against the concept of additionality, and also quotes Indian project developers stating bluntly that none of their projects is additional. US observers think that this cable led to a very negative report of the Congressional General Accounting Office on the CDM and hardened opposition against allowing CDM offsets into a US emissions trading scheme.
- A comprehensive comparison of existing GHG offset schemes is offered through the re-launched Carbon Offset Research and Education (CORE) website, available at: www.co2offsetresearch.org.
- An analysis of the CDM reform process has been published by IGES, urging the need for further simplification of rules and procedures and standardization is available at: www.enviroscope.iges.or.jp (5.2 MB).
- Dan Bodansky discusses a voluntary second commitment period of the Kyoto Protocol and implications for the CDM under: www.papers.ssrn.com.
- A new tool organizes CDM methodologies based on the equations of baseline emissions, project emissions, and monitoring methodology – see www.enviroscope.iges.or.jp (1.6 MB).

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Registration information

Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH



Registered offices

Bonn and Eschborn, Germany

Friedrich-Ebert-Allee 40
53113 Bonn, Germany
Phone: +49 228 44 60-0
Fax: +49 228 44 60-17 66

Dag-Hammarskjöld-Weg 1-5
65760 Eschborn, Germany
Phone: +49 61 96 79-0
Fax: +49 61 96 79-11 15

Email: info@giz.de
Internet: www.giz.de

Registered at

Local court (Amtsgericht) Bonn, Germany: HRB 18384
Local court (Amtsgericht) Frankfurt am Main, Germany: HRB 12394

VAT no

DE 113891176

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In charge of this newsletter:

Friedel Sehleier (climate@giz.de), [GIZ Climate Protection Programme](#),
a project carried out on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ)

Editor(s):

Friedel Sehleier (climate@giz.de), GIZ
Axel Michaelowa, [Perspectives GmbH](#) (Author)

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