



ViewPoint: Sustainable development loses to additionality

The CDM Executive Board (EB) is being criticised for sluggishness and for being so concerned about the “environmental integrity” of the CDM that it has created an approval process that is so lengthy that market players have questioned whether it’s worthwhile at all.

But how does this environmental integrity show in the CDM projects registered by the EB so far?

My view is that sustainable development considerations are losing to additionality. Unfortunately, the academic, unrealistic application of the additionality concept by the CDM Executive Board seems to be penalising projects with real sustainability components.

Looking at the CDM projects registered to date, it is unfortunately difficult to see that environmental integrity is in the

forefront. From an estimated reduction of around 44 million tonnes of CO₂e up to 2012, 87.7% are from two HFC₂₃ decomposition projects, 8.3% from two landfill projects, 3.7% from seven renewable electricity generation projects (6 small scale ones) and 0.3% from a industrial fuel switch project.

Decomposition of industrial and landfill gases, although often with only minor contributions to sustainable development, are in because one can easily show that the project would not have occurred without the CDM. On the other hand, projects with significant sustainability components are out, such as those involving exploitation of renewable energy sources, energy efficiency and rationalisation of public transportation. This is often due to the complexity of demonstrating additionality.

To qualify for the CDM, any emissions reductions must be additional to those that would occur in the absence of the project activities. However, for most projects, what “would occur in the absence of projects” is impossible to verify, as no one can see into the future.

For example, it is impossible to demonstrate that the electricity generated from the project will substitute energy from for example fossil fuels. Therefore, reasonable estimations, common sense, and most of all, a certain risk, should be expected. However, the EB does not seem to agree that estimates have to be accepted to and keeps rejecting and approving - then revising - methodologies until they are perfect. And impossible to apply in the real world.

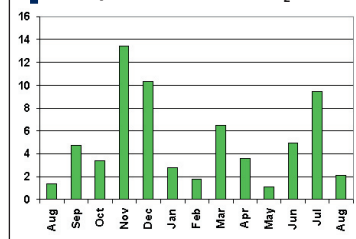
**Ricardo Esparta,
Ecoinvest Carbon**

Recent credit purchases

Date	CDM/JI	Vol (tCO ₂ e)	Delivery
08.08.2005	CDM	2,820,000	2006-13
05.08.2005	CDM	310,000	2006-15
28.07.2005	CDM	500,000	N.A.
27.07.2005	JI	2,000,000	2008-12
14.07.2005	CDM	3,000,000	2006-15

The information provided in the table is from emission reduction purchase agreements (ERPAs) – based on contacts with key traders, brokers and project developers – does not necessarily represent the complete market. Information has been anonymised in order to respect key players’ confidentiality needs. Explanations of abbreviations and acronyms: see page 6 and Glossary on www.pointcarbon.com

**JI and CDM investments
Monthly in 2004 and 2005 (MtCO₂e)**



Workshop 3-5 Oct, Kiev



CDM market comment

The last couple of weeks have seen a relatively high number of deals being landed. At the same time, sellers and buyers seem to have a hard time agreeing on the price. Prices are in the €6-9 area in so-called standard off-take contracts where the seller does its utmost to deliver CERs, but does not have to pay penalties in case the project delivers less than expected. Bids are in the lower range, offers in the upper. In contracts where the seller guarantees the delivery of a specific volume from registered projects, forward CERs are offered at €13-14, bids are at €10. Guaranteed delivery forward CERs in contracts that are only valid upon registry of the project are offered at €11, while buyers only want to pay €8.

Still, we see deals being made at substantially lower prices, mainly due to three reasons: First, the World Bank pays a lower price, because it commits itself to buying the emissions reductions even if the project is not registered and does not generate CERs that can be used for compliance. Second, many of the earliest deals have taken years to agree. Thus, there are a number of CER deals that are based on aged term sheets with the price a couple of years old. Third, a small number of buyers (mainly governmental, but increasingly corporate buyers also) are willing to pay a certain percentage upfront to support the project implementation and performance. Partial or full upfront payment may yield a discount on the total price.

Marte Nordseth, Point Carbon

News in brief

- The Japanese power company **J-Power** has signed an emissions reduction purchase agreement (ERPA) to purchase 2,82 million CERs from a Brazilian landfill project to an undisclosed price.
- **Austria** intends to purchase 35 million tonnes of emissions reductions by 2012 and has opened its third tender for JI and CDM projects to generate CERs and ERUs through its public consultancy **Kommunalkredit**. The tender will remain open to January 2006.
- UK-based **Icecap** plans to purchase 500,000 CERs from the Indian HFC₂₃ project **SRF**, in a joint venture with a leading oil trader. SRF expects that its CDM project, which is not registered yet, will generate some 3.8 million CERs per year.

Recent CDM project ratings

Point Carbon's recent rating of CDM projects saw the Pocillas and La Estrella project upgraded to A, making it one of the five most attractive projects in terms of likelihood for delivery of planned amount of CERs. The project has requested registration and has a good chance of getting it, although there may be some questions as to what extent the project is additional. The Brazilian landfill gas projects NovaGerar and Vega, as well as the Indian HFC project Gujarat, remains at A, while Ulsan stays an A- rated CDM project.

Date	Location	Country	Type	CERs until 2012 MtCO ₂	Rating
06.08.05	Gujarat	India	HFC ₂₃	27.2	A
06.08.05	NovaGerar	Brazil	LFG(E)	2.8	A
06.08.05	Vega	Brazil	LFG(E)	7.1	A
06.08.05	Pocillas	Chile	Wa	2.6	A
06.08.05	Ulsan	S-Korea	HFC ₂₃	12.0	A-

AAA: It is nearly certain the project will deliver CERs as planned. D: The project will default. There are 10 different scores between AAA and D. The content and scores of the project profiles for 20 of the largest CDM projects according to the PDD (as well as several other upcoming projects) will be updated continuously. More information about CDM project profiles available at www.pointcarbon.com. Explanations of abbreviations on page 6.

CDM and JI Project Pipeline

1788 proposed CDM and JI projects have so far been registered in Point Carbon's Project Database. Out of these, 472 projects, potentially yielding 681 MtCO₂e of emissions reductions towards 2012, have reached Project Design Document (PDD) level.

	Total			PDDs			Commented			EB/SC			Issued		
	T	14	C	T	14	C	T	14	C	T	14	C	T	14	C
MtCO ₂ e	N/A	N/A	N/A	681	679	+2	354	336	+18	46	46	-	N/A	N/A	N/A
Number	1788	1756	+32	472	447	+25	207	186	+21	12	12	-	N/A	N/A	N/A

T=Today; 14=14 days ago; C=Change. Total: Number of JI and CDM projects registered in Point Carbon's Project Database; Commented: project submitted for public comments on UNFCCC website as part of validation; EB/SC: projects registered by the CDM Executive Board or JI Supervisory Committee; Issued: CDM EB or JI SC has issued CERs/ERUs. All volumes are total volumes until 2012. For forecasted volumes, see [Carbon Market Monitor](#). See page 6 for explanation of abbreviations.

Key CDM info

- The World Bank's Community Development Carbon Fund has bought 310,000 tonnes of CO₂ reductions from the Honduran hydropower project La Esperanza for \$1.4 million.
- The International Finance Corporation (IFC) has put \$10 million in AgCert's CDM activities in Brazil and Mexico.
- India has signed a Memorandum of Understanding (MoU) for CDM cooperation with Italy.
- EcoSecurities and Japan Carbon Finance have set up a facility that will purchase up to one million CERs from small-scale CDM projects between 2008-2012.

	Total	New since last update
non-Annex I DNAs	68 ^b	a
Annex I DNAs	17 ^b	a
Meths - total	158	7
Meths - approved (A)	23 ^c	a
Meths under revision (B)	5	a
Meths not approved (C)	46 ^d	a
Meth Panel yet to assess	44	7
DOEs accredited	10	a
AEs with indicative letter	20	a
NAI ratification	117 ^e	Eritrea

See page 6 for explanations of abbreviations. a = No new since last update. b = Notified to UNFCCC, or through other channels. c = In addition, 15 small-scale and 4 consolidated methodologies approved. d = Including 5 afforestation/reforestation methodologies. In addition, 4 methodologies withdrawn. e = As published on the UNFCCC website.

CDM projects completing stakeholder comment period last 14 days

Location / project	Country	Type	Meth	Vol -2012 (tCO ₂ e)	DOE
Meizhou	China	LFG(E)	AM0003	2,005,000	DNV
CDM Solar Cooker	Indonesia	RE	AMS-I.C.	25,000	TÜV-S
Sahabat	Malaysia	RE(B)	AMS-I.C.	384,000	SGS
JCT Phagwara	India	RE(B)	AMS-I.A.	238,000	TÜV-S
Usha Martin	India	ENEF	AMS-III.B.	112,000	TÜV-R
Mahatma Gandhi	India	RE(HR)	ACM0002	660,000	TÜV-R
Hassan	India	RE(B)	AMS-I.D.	252,000	TÜV-R
Anaerobic treatment	Vietnam	RE(B)	AMS-I.A+AMS-III.D.	55,000	JCI
Rithwik	India	RE(B)	AMS-I.D.	93,000	TÜV-R

See page 6 for explanations of abbreviations.

Recent JI developments

- Kommunalkredit bought 2 MtCO₂e on behalf of the Austrian government from a Hungarian project cutting nitrous oxide (N₂O) emissions by over 85 per cent at a plant. The project is set to reduce emissions by 4 MtCO₂e in the 2008-2012 period. Kommunalkredit purchased half of this, but has an option to buy more if enough credits are generated.
- The Japan Bank for International Cooperation (JBIC) has proposed a Memorandum of Understanding (MoU) with Russia to facilitate Japanese companies' investments in Russian JI projects.
- Belarus is expected to finalise the ratification of the Kyoto Protocol by mid-August. Following the government's approval to join the Protocol in June this year, the ratification is now dependant on the signature of President Lukashenko. Belarus is an Annex I Party, but has no reduction target under the Protocol, which is required in order to be able to participate in the flexible mechanisms. The target has to be adopted by Belarus and approved by other parties through COP/MOP.

JI projects completing stakeholder comment period last 14 days

Location / project	Country	Type	Vol -2012 (tCO ₂ e)	DOE
Boryslav	Ukraine	FE(OG)	338,000	TÜV-S

Full list to become available at www.pointcarbon.com.

CDM projects submitted for CDM registration

Location / project	Country	Type	Meth	Vol-2012 (tCO ₂ e)	DOE
Kuyasa	South Africa	RE + ENEF	AMS-I.C +AMS-II.C +AMS-II.E.	49,000	DNV
Salvador da Bahia	Brazil	LFG(E)	AM0002	6,667,000	DNV
Corneche&Los Guindos	Chile	Wa(A)	AM0006	952,000	DNV
Peralillo	Chile	Wa(A)	AM0006	642,000	DNV
Pocillas & La Estrella	Chile	Wa(A)	AM0006	2,531,000	DNV
Villa Dominico	Argentina	LFG(E)	AM0011	5,381,000	DNV
Matuail, Dhaka	Bangladesh	LFG(E)	ACM0001+2	1,307,000	SGS

See page 6 for explanations of abbreviations.

A golden pig-stie

First out to explore the wonders of swine manure was Irish-registered **AgCert**. Now other project developers have followed. By installing biodigesters on swine breeding farms, large amounts of methane and nitrous oxide could be saved from reaching the surroundings and the atmosphere. So far, some of the opportunities in Mexico, Chile and Brazil are being explored, only a small share of the enormous potential agricultural CDM projects has worldwide.

AgCert has teamed up with more than 500 large-scale pig farms in Mexico and Brazil. The 17 AgCert project activities publicly known to date are set to generate some 13 million CERs by 2012. These project activities involve some 220 of the 500 farms, which means that about half of AgCert's swine

manure potential is currently publicly known. AgCert has plans of similar projects in other South American countries, as well as similar JI projects in Canada and Eastern European countries.

Chilean **Agrosuper** created its own methodology for its similar projects and has gone public with three of these projects located in Corneche and Los Guindos; Pocillas and La Estrella; and Peralillo). In total, these three project activities are expected to generate almost 4.2 million CERs by 2012.

The new kid on the block is the Brazilian meat producer **Sadia**. Sadia is expected to submit its prototype project "GHG capture and combustion from swine manure management systems at Faxinal dos Guedes and Toledo" project for CDM

registration any day now. This pilot project includes three swine farms. Project developer Sadia is in contact with its 3500 farms, which potentially could be part of one large CDM project. In the project developer's assessment, 80-90 per cent of these farms could easily choose to take part in the project activity. Still, Sadia conservatively estimates that if half of the farms agree to take part, the project could generate some 6 million CERs by 2012.

"Our commitment is to create a sustainable development on our swine farms. The CDM enables us to do so. The CDM involvement of our company is non profit - we finance the installation of biodigestors and get repaid once the CERs are sold. Any profit goes directly back to the producers," said Júlio Cavasin with Sadia's CDM program.

AAU	Assigned Amount Unit	EU ETS	European Union Emissions Trading Scheme	(biomass)
ACM	Approved Consolidated Methodology	GFR	Gas flaring reduction	RE(G) Renewable energy (geothermal)
AE	Applicant Entity (third party)	GHG	Greenhouse gas	RE(HR) Renewable energy project (hydropower - run-of-river)
AENOR	Spanish Association for Standardisation and Certification	H	Hydropower	RE(Wi) Renewable energy (windpower)
AFS	Avoided Fuel Switch	HFC-23	Potent greenhouse gas; byproduct from production of cooling medium HCFC-22	SBSTA UNFCCC's Subsidiary Body for Scientific and Technical Advise
Annex B	The 39 emissions-capped countries listed in Annex B of the Kyoto Protocol	HON	Honduras	SGS Société Générale de Surveillance
AM	Approved Methodology	ICONTEC	Columbian Institute for Technical Standards and Certification	SC Joint Implementation Supervisory Committee
AMS	Approved Methodology Small-scale	IND	India	tCO_{2e} Metric tonne of carbon dioxide equivalent emissions
B(CG)	Bagasse co-generation	INDO	Indonesia	TECO Tohatsu Evaluation and Certification Organisation
BSI	British Standards Institution	IP	Industrial processes	TECPAR Technology Institute of Paraná
CAS	ChuoAoyama Sustainability Certification Co. Ltd.	JACO	Japan Audit and Certification Organisation for Environment and Quality	TÜV-R TÜV Rheinland
CDM	Clean Development Mechanism	JCI	Japan Consulting Institute CDM Center	TÜV-S TÜV SÜD Group
CDM EB	CDM Executive Board	JI	Joint Implementation	UNFCCC United Nations Framework Convention on Climate Change
Cem	Cement	JQA	Japan Quality Assurance Organisation	Wa Waste
CER	Certified Emission Reduction (CDM trading unit)	KFQ	Korean Foundation for Quality	Wa(A) Animal waste
COP 10	Tenth Conference of Parties to the UNFCCC	LFG(E)	Landfill gas to electricity	WAI Waste avoidance and incineration
DNA	Designated National Authority	LULUCF	Land use, land use change and forestry	
DNV	Det Norske Veritas Certification	MtCO_{2e}	Million tonnes of carbon dioxide equivalents	
DOE	Designated Operational Entity (third party)	N/A	Not applicable	See also "Glossary" at www.pointcarbon.com
EB	CDM Executive Board	NAI	Non-Annex I	
ERPA	Emission Reduction Purchase Agreement	N₂O	Nitrous oxide	
ERU	Emission Reduction Unit (JI trading unit)	PDD	Project Design Document	
		PFC	Perfluorcarbon	
		RE(B)	Renewable energy	

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