



This newsletter is published as part of the project JIKO – Development phase 2005-2007 at the Wuppertal Institute for Climate, Environment, Energy – Energy, Transport and Climate Policy Research Group

Dear Reader,

A range of conflicting reports on the subject of climate change mitigation have emerged from the US recently. On the one hand, we heard how President Bush vehemently opposed Britain's plans to make agreement on CO<sub>2</sub> emissions reduction an agenda item at the G8 Summit in Scotland. And it seems that pressure from the US was also the reason why Great Britain's call for adequate funding for the CDM Executive Board was removed from the agenda. On the other hand, there were rumours that top US businesses are considering buying emissions certificates – we can only speculate as to their reasons for doing so. One thing that is clear, however, is that some US states are now contemplating introducing their own emissions trading schemes, thus bypassing national level.

On a very different note, climate change mitigation supporters have gone to great lengths to secure the environmental integrity of the UNFCCC process. In this issue, JIKO hosts a guest article on the Gold Standard for climate protection projects.

Enjoy the read.

*The Editor*

## JIKO News

### Seminar of Governmental Experts Sparks Ideas for CDM Reform

**The Seminar of Governmental Experts (SoGE) convened in Bonn on 16 – 17 May as part of the UN climate talks. As previously reported by JIKO Info, agreement on conducting this type of informal exchange was one of the key outcomes of COP 10 in Buenos Aires. The seminar served as a forum for countries to exchange information on implementing climate policy measures and discuss further development of the climate regime beyond the first Kyoto Protocol commitment period. The framework decided at COP 10 was believed too restrictive, however, and this dampened expectations as to the seminar's ability to initiate debate on climate policy post 2012. Many of the participants were thus pleasantly surprised by what turned out to be, at least in part, a constructive exchange of ideas between the various government representatives – this being fostered not least by the “talk show” atmosphere in which the Climate Secretariat set the event.**

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## JIKO Review

### A Guide to the Complexities of the CDM Japanese Government Presents Two New Guidebooks

**Since the Marrakech Accords, the framework for the CDM and its institutions has become increasingly complex. Two new English-language publications from Japan's Ministry of Environment (MOE) and Global Environment Centre Foundation (GEC) provide project developers and policymakers with a detailed insight into all the CDM developments that took place up to December 2004.**

The **CDM Manual for Project Developers and Policy Makers** provides businesses and decisionmakers with an easy-to-follow guide to the approval process. From idea to implementation, project developers can use it along the entire length of the CDM project cycle.

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#### JIKO News

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- A Guide to the Complexities of the CDM
- The Gold Standard – Setting a Quality Standard for CDM and JI Projects
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JIKO News

## Seminar of Governmental Experts Sparks Ideas for CDM Reform

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Contrary to a wider mood of reticence, some developing countries put forward ideas on the climate regime for the future. For example, South Africa along with a number of others called for a “Montreal Mandate” to be adopted at the first Meeting of the Parties to the Kyoto Protocol (COP/MOP 1) in December. In a similar way to the Berlin Mandate, the Montreal Mandate is intended to provide the impetus for formal negotiations on further development of the Kyoto Protocol. The Berlin Mandate served as the basis for negotiations on the original Kyoto Protocol back in 1995.

A remarkably large number of presentations dealt with the current implementation and future design of the CDM. Most emphasised its importance for developing countries, while at the same time calling for changes in the rules. In the main, criticism focused on the complexity of the CDM (with demands for simplified procedural requirements) and on the fact that existing project activities took in only a few technologies. Finally, there were calls for the CDM to be expanded to include sectoral projects. This will be taken up in a detailed report in the next edition of JIKO Info.

The idea behind the SoGE decision, to provide an informal forum in which countries can exchange information in a setting far removed from the official negotiations, appears to have been a success. However, its impact on the negotiation process in the lead up to and during COP/MOP 1 remains to be seen: the SoGE mandate makes no provision for formal feedback to the negotiation process. Held immediately after the SoGE, the twenty-second meeting of the subsidiary bodies of the Climate Change Convention was unable to keep up the momentum gained at the seminar and progressed at the usual speed.

The SoGE presentations and some background information are available online at: <http://unfccc.int/meetings/seminar/items/3410.php>

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JIKO Review

## A Guide to the Complexities of the CDM

### Japanese Government Presents Two New Guidebooks

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The manual deals with all CDM-related institutions, project types and the project and methodology approval process, and shows how to develop a project design document (PDD). It explains both “normal” and small-scale projects including afforestation and reforestation activities. The authors provide background information on the negotiation process and explain aspects that have been unclear to date. Flowcharts, graphics, pictures and plain language assist entry into the world of the CDM. The manual does expect its readers to have some background knowledge, however. Newcomers to the CDM are thus advised to get themselves a general introduction to the subject.

The **CDM Methodologies Guidebook** looks at new trends in CDM methodologies. Its author, Naoki Matsuo, is a desk viewer for the CDM Methodology Panel. The guidebook targets project developers, policymakers and experts on the CDM Executive Board in an effort to close what the author says are vast knowledge gaps.

Following a well-presented theoretical introduction, Matsuo gives practical instruction on how to develop baseline and monitoring methodologies and how to describe them in the respective documentation. He also highlights how project-related methodologies can be expanded for use with similar projects. Finally, Matsuo develops a Master Methodology for projects that involve feeding energy into the grid, presenting it as an instrument for use with all projects of this type. In excursions, Matsuo analyses current trends and provides instructions on how to express a given set of circumstances in mathematical terms. The guide is invaluable in preparing highly complex methodologies. Matsuo takes up the issues that often lead to a project proposal being rejected. For areas that have lacked clear rules so far, subjective explanations are presented through the eyes of an experienced practitioner. This may not provide planning security, but herein lies the strength of the publication: making an expert’s experience

in this new policy field accessible to project developers. The author also introduces a range of interesting suggestions into the policymaking process. The only downside is the guide's rather poor structure which makes it somewhat user-unfriendly.

Yet the authors' choice of plain language and his respective practical experience makes each of these publications a must have.

Both publications are available for download from the Global Environment Centre Foundation, Japan, website: <http://gec.jp/>, Methodology Guidebook (111 pages, 11.6 MB): [http://gec.jp/gec/EN/publications/CDM\\_Meth\\_Guidebook\\_E.pdf](http://gec.jp/gec/EN/publications/CDM_Meth_Guidebook_E.pdf), CDM Manual (89 pages, 2 MB): [http://gec.jp/gec/EN/publications/CDM\\_Manual04\\_E.pdf](http://gec.jp/gec/EN/publications/CDM_Manual04_E.pdf)

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## JIKO News

# The Gold Standard – Setting a Quality Standard for CDM and JI Projects

by Michael Schlup, Director, The Gold Standard

With the increased certainty of the Kyoto protocol now in force, the international carbon market will grow to a multi-billion dollar market in 2005. An important driver is the EU ETS, which allows emission reductions generated by climate protection projects (CERs/ERUs) to be counted towards emission reduction obligations at home. Many of the around 15'000 installations affected are looking into investing directly or through funds to ensure compliance.

Relatively weak national allocation plans (NAPs) are also likely to leave the issuing governments short of their targets under the Kyoto protocol. Their industries will not contribute to the overall target as much as was initially thought when the Kyoto target with the international community was negotiated. Most governments are buying credits through tender programmes or invest in multilateral funds.

On the supply side, the number of projects under development is growing steadily but is still to meet the ever-increasing demand. Hundreds of projects plan to eventually issue reduction certificates to buyers. But the actual supply of especially verified CERs will be determined by many limiting factors: the capacity to process project applications by the CDM Executive Board, the official body registering CERs; the capacity of project developers to submit project design documents that fulfill the CDM EB's requirements, and last but not least by the willingness and capacity of the host countries to approve projects planned on their territories and to establish the necessary framework to being able to do so according to Kyoto regulations.

## Sustainable development – the forgotten “other” objective of the CDM

Under these circumstances – demand exceeding supply – the carbon finance market has become more mainstream and attracted more conventional financiers. Sustainable development aspects, always neglected in the CDM discussions since compliance became a legal issue, are increasingly marginalised as a factor of CDM projects to consider. For an investor, all that is important is that projects deliver, that they deliver cheaply and safely, and that the technical procedures to transfer credits between registries work.

While cost-effective compliance has rightfully always been an objective of the CDM, it is necessary, however, that “the other objective”, contribution to sustainable development through the projects, is not forgotten. The Kyoto protocol leaves it to host countries to approve only projects that suit their own (sustainable) development strategy. It is thus natural that different countries set different standards in defining what is a sustainable CDM project in the country's context. Yet not all countries can afford to get bypassed by investors today because of requirements for sustainable development considered too strict and increasing the direct costs of designing a CDM project: lower standards are likely to increase the number of projects and thus the flow of much-welcomed hard currency into the country in the short-term. And competition between host countries bears a great danger of a “race to the bottom” in the necessary environmental, social and economic standards for a CDM project.

In the interest of all, CDM projects should integrate minimal sustainable development aspects in the develop-



Source: The Gold Standard

*A low energy house of the Kuyasa project*

ment process although there is little interest in these aspects from the forces that are driving the market.

### **The Gold Standard as a tool to integrate Sustainable Development in the CDM**

By creating the Gold Standard methodology, the international NGO community presented a quality benchmark that is not only securing that projects have a lasting reduction effect. It also takes into account the needs of developing countries and their population on the way to a more sustainable energy future and sustainable development. As a built-in side effect, it also helps project developers and investors to design their projects more efficiently, thus reducing development costs and risks.

Three simple screens integrated in the standard CDM project development document are the instrument to achieve these benefits without overstressing the necessary additional effort:

- *Project-type screen* – Renewables and energy-efficiency projects only are eligible to reward short-term disadvantages that have to be accepted (limited project sizes, increased difficulties in up-front financing and modest contribution to returns from CER revenues).
- *Additionality screen* – Strict guidelines and conservative baseline definitions allow sound proof of additionality and realistic projections of volumes to be expected; leaving no shadow of doubt over the project and decreasing the likeliness of set-backs in the registration process.
- *Sustainability screen* – At the heart of the Gold Standard, a simple set of indicators (see figure) used in combination with increased and early stakeholder consultation helps to

identify environmental, social and economic risks up-front and gives guidance on mitigation options.

#### **1) Local/regional/global environment**

- Water quality and quantity
- Air quality
- Other pollutants
- Soil condition
- Biodiversity (species and habitat conservation)

#### **2) Social sustainability and development**

- Employment (quality)
- Livelihoods of the poor
- Access to energy services
- Human and institutional capacity

#### **3) Economic and technological development**

- Employment (job creation)
- Impact on the balance of payments
- Technological self-reliance

### ***The Gold Standard Sustainable Development indicators*** *(based on work by Helio and SSN)*

Any project developer aiming for the Gold Standard can download the Gold Standard PDD and associated documentation from the web for free. Completed PDDs will be scrutinised in parallel with the standard CDM requirements by the same validator, at – if at all – a marginal additional cost. The Gold Standard organisation both supports developers – e.g. by listing projects under development in its public project database – and monitors projects by auditing and, if necessary, improving the validation process.

### Who is responsible for implementing premium quality projects?

Only recently, the first two projects were validated to the Gold Standard. The low-energy housing project Kuyasa in South Africa, in a first step equipping 2000 low-income households with insulated buildings, efficient lighting and solar water heating is a prime example of how the CDM can boost local development in developing nations. In the case of the New Zealand wind farm Te Apiti, the Gold Standard was endorsed by a major utility of the country and will be used as a blueprint for further project developments – making energy supply in New Zealand more sustainable for the future.

More projects are under development, and some host countries are using the whole or parts of the Sustainability screen of the Gold Standard, some buyer countries do the same or reward projects in Gold Standard-quality with a premium price. Voluntary initiatives offsetting emissions from air travel or associated with certain events are increasingly considering the Gold Standard as the best-practice standard for projects. Germany and Great Britain lead the way: the non-profit association Atmosfair has been pioneering the market for retail customers, the British government and the London Olympic bid are applying Gold Standard criteria, the FIFA World Cup's Green Goal programme is on the lookout for Gold Standard projects. Private companies are following suit.

These are all encouraging signs, but not enough to shape the CDM in an instrument where most credits – not just 18% as today – come from projects that will have a long-term reduction effect and at the same time provide benefits for the local population and environment. More host countries need to carefully consider what projects they want in a broader perspective. More developers need to carefully design projects for local benefits and focus on truly additional projects. And last but not least, more buyers – private but especially governmental – need to walk the talk and support renewables and energy efficiency projects instead of eyeing for the cheapest way of compliance to let industry off the hook because pressure on the EU ETS should be reduced to avoid opposition to that cornerstone of national Kyoto compliance strategies. To be fair it also needs to be said that sourcing of bankable projects of that type is difficult and requires time and effort. But one thing was clear from the outset – stopping climate change from



The Gold Standard is an independent non-profit-organisation, founded by an international coalition of 33 NGOs involved in climate policy (“supporters”), among them Germanwatch, Greenpeace, and WWF. The Gold Standard coordinates, markets and develops the Gold Standard methodology, and registers validated GS-projects. Only registered projects are entitled to carry the label “The Gold Standard – Premium quality carbon credits”. The use of the methodology and registration of projects is free of charge.

The Gold Standard Management is guided by a steering committee consisting of representatives from NGOs and the private business sector. A standard advisory board with members holding expertise in the project based mechanisms provides professional support to the Steering Committee and the Management. The Gold Standard is hosted at Basel Agency for Sustainable Energy (BASE), Switzerland, a non-profit foundation facilitating investment in sustainable energy.

The Gold Standard is currently sponsored by the Danish International Development Agency (DANIDA) and the Renewable Energy and Energy Efficiency Partnership REEEP / UK Global Opportunities Fund.

happening will not be a walk in the park. But focusing on sustainable development – while tedious and costly at times – is the thread that can show they way out.

To access the documents referred to in the text and further information, go to <http://www.cdmgoldstandard.org>. For assistance and further information, please contact [info@cdmgoldstandard.org](mailto:info@cdmgoldstandard.org) or The Gold Standard, +41 61 283 09 16.



Michael Schlup is the director of The Gold Standard since January 2005. An environmental economist and a geographer, Mr Schlup has gained extensive experience in conducting complex environmental protection projects, sustainable energy technologies and in public finances through his work both in the private business sector and at BASE, Switzerland.

JIKO News

## New JIKO Info Series: Current Calls for Tender

Starting with this edition, JIKO Info will run a series of articles presenting EU Member State programmes for the acquisition of emissions reduction certificates from CDM/JI projects. In particular, these state-run programmes use climate protection projects to generate certificates that can then be used to meet national targets under the Kyoto Protocol. Along with funds investment, the programmes include calls for tender whereby project developers are invited to submit project proposals which, funded under the programme, can contribute to emission reductions abroad.

The overview provided in this and subsequent JIKO Info newsletters is designed to assist project developers in the search for suitable tenders. The series kicks off with a

look at Belgium's JI/CDM tender which in its first call invites expressions of interest to be submitted by 23.09.2005. The JIKO team has also compiled a list of national programmes or rather those that are largely state funded (see table below).

### Belgian JI / CDM Tender

Belgium ratified the Kyoto Protocol in 2002, agreeing to reduce its emissions by 7.5 per cent overall in the first commitment period. Along with a range of initiatives at regional level (e.g. the Flanders CDM/JI Programme, see box), it purchases emissions certificates (CERs, ERUs/AAUs) at national level – the ultimate aim being to acquire a total of 12.3 million t CO<sub>2</sub>e. Belgium announced its first call for CDM/JI tenders at national level (known as the Belgian Federal JI/CDM Tender) in mid-May 2005 with a budget of EUR 9.3 million. Responsibility for initiating the call was assigned to the Directorate General for the Environment at the Health, Food Chain Safety and Environment Ministry.

	Volume	Call	Focus	Website
Belgium – CDM/JI Tender	12.3 million t CO <sub>2</sub> e in 2008-2012 First call budget: EUR 9.3 million	Started 13.05.05 Closes 23.09.05	CDM & JI Projects	<a href="http://www.climat.be/jicdm tender/index.htm">http://www.climat.be/jicdm tender/index.htm</a>
Denmark – DanishCarbon.dk	18.7 million t CO <sub>2</sub> e in 2008-2012	Closes 7.11.05	CDM & JI Projects in - Central and Eastern Europe	<a href="http://www.danishcarbon.dk">http://www.danishcarbon.dk</a>
Finland – CDM/JI Pilot Programme	1 – 1.4 million t CO <sub>2</sub> e in 2008-2012	Open (2-3 small projects in 2005)	Small-scale projects	<a href="http://global.finland.fi/english/projects/cdm">http://global.finland.fi/english/projects/cdm</a>
Flanders – CDM/JI Programme	23.93 million t CO <sub>2</sub> e by 2012	First call period closed 04.01.2005	CDM & JI Projects	<a href="http://193.190.148.16/ned/sites/economie/energiesparen/paginas/fxm_beginpagina_en.htm">http://193.190.148.16/ned/sites/economie/energiesparen/paginas/fxm_beginpagina_en.htm</a>
KfW Carbon Fund	EUR 8 million	Closed 31.03.2005	CDM & JI Projects	<a href="http://www.kfw.de">http://www.kfw.de</a>
Netherlands – ERUPT (Emission Reduction Unit Procurement Tender)	Total EUR 200 million annually	No current calls for tender	Ji Projects	<a href="http://www.carboncredits.nl">http://www.carboncredits.nl</a>
CERUPT (Certified Emission Reduction Unit Procurement Tender)		No current calls for tender	CDM Projects	<a href="http://www.carboncredits.nl">http://www.carboncredits.nl</a>
Austria – CDM/JI Programme	35 million t CO <sub>2</sub> e in 2008-2012	Second call closed 30.06.2005	CDM & JI Projects	<a href="http://www.klimaschutzprojekte.at">http://www.klimaschutzprojekte.at</a>
EcoSecurities –Standard Bank Carbon Facility	Starting capital put up by the Danish Environment Ministry: EUR 10 million	Open	CDM & JI Projects in Balkan states, Central and Eastern Europe, and Central Asia	<a href="http://www.essbcarbonfacility.com/">http://www.essbcarbonfacility.com/</a>

*Overview of EU Member State Programmes for acquisition of certificates from CDM/JI Projects*

The programme takes in almost all project types with the only real exception being LULUCF and nuclear power projects. There are no explicit rules on water power projects, not even by way of reference to the criteria set out by the World Commission on Dams (WCD). Purchasing agreements are signed up to a maximum EUR 2.3 million per project; there is no minimum volume per project requirement.

The call for tender comprises two phases. In the first phase, candidates are selected based on expressions of interest. In the second phase, the selected candidates are requested to submit formal project proposals. A proposal submitted in the second phase must contain the following:

- A cover letter showing the funding contribution
- Information concerning the exclusion and selection criteria
- Project design document (PDD) and validation report
- Social responsibility declaration
- Schedule for allocation of certificates
- Business plan
- Environment impact assessment, as appropriate
- Description of the environmental and socio-economic impacts of the project
- Letter of approval from the host country

Expressions of interest may be submitted by no later than 23 September 2005. Invitations to selected candidates asking them to submit proposals (proposal due date: 28 February 2006) will go out by 4 November 2005. Contract negotiations will start in late May 2006. Projects will be selected from around 25 proposers for both JI and CDM activities.

To ensure a balanced project portfolio, the projects are ranked in and selected from six different categories. These categories include:

1. Energy-efficiency projects
2. Renewable energy projects (excluding biomass)
3. Energy generation using clean, sustainably produced biomass (excluding waste)
4. Small-scale projects (the definition for CDM projects applies to JI projects unless a specific definition for JI is included)

5. Projects based in Africa or LDC countries or in a partner country to Belgium's development cooperation programme (CDM projects only)
6. Others, including fuel switch and methane recovery projects

The projects in each category are evaluated using a set of criteria which include certificate generation and sustainability.

The best projects from each category will be selected, then the second-best and so on, in order of category as shown above, until the budget is exhausted.

Under certain circumstances, project developers may be reimbursed for part of the costs incurred in preparing the project documentation. Depending on the total number of projects selected, a financial contribution in the amount of at least EUR 20,000 may be made available provided that project developers submit:

- A complete project proposal with all necessary documentation
- A written statement verifying that the project has not already been offered to other potential emissions certificate buyers and that the documents have been specially prepared for the Belgian call for tender

Further information together with the required documents and forms is available on a dedicated website: <http://www.klimaat.be/jicdmtender>

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## JIKO News in Brief

### Russia Restructures Climate Policy Activities

In implementing the Kyoto Protocol, Russia's National action plan has assigned a range of climate protection activities – particularly registration, inventory and reporting, and carbon sinks – to the Ministry of Natural Resources and the Federal Supervisory Authority Rostekhnadzor. However, both the Federal Service for Hydrometeorology and Monitoring (Roshydromet) and the Russian Ministry of the Economy retain responsibility for some areas of climate change policy. The German-Russian Working Group on Environment and Energy is expected to meet in Moscow in mid-August to discuss, among other things, cooperation projects involving the public-private registry.

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### Germany and Ukraine Prepare Memorandum of Understanding

In consultations between the German and Ukraine governments held on 21 – 22 June 2005, the Ukraine Environment Minister Pavlo Ignatenko agreed to intensified cooperation on the Kyoto Protocol and especially on Joint Implementation. The Working Group on Environment and Energy will thus meet a number of times in the course of this year to prepare for the signing of a Memorandum of Understanding on JI projects and to discuss JI project proposals submitted by German businesses. Minister Ignatenko took the opportunity to emphasise the need for timely creation of a legal framework to support Joint Implementation, saying that Ukraine would give priority to projects involving energy supply, methane sequestration and recovery from abandoned mines and land-fills, along with those that use renewable energy.

Contact persons at the German Environment Ministry: [Franzjosef.Schafhausen@bmu.bund.de](mailto:Franzjosef.Schafhausen@bmu.bund.de); [Thomas.Forth@bmu.bund.de](mailto:Thomas.Forth@bmu.bund.de)

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### New Study on Transport and the CDM

Transport projects play hardly any role in the CDM at present. This is largely due to the fact that transport emissions originate from a range of small, mobile sources that would be very difficult to house under one project roof. In conjunction with two project partners, the International Institute for Sustainable Development (IISD) conducted a study on the opportunities and challenges involving transportation and the CDM. One of the key recommendations to come out of the study is the introduction of a policy-based or sectoral CDM (this type of CDM project will be reported on in detail in the next edition of JIKO Info). The study, entitled Getting on Track: Finding a Path for Transportation in the CDM, is available for download at: <http://www.iisd.org/climate/global/ctp.asp>.

## JIKO Info

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