JIKO Info

5/06

Science Centre North Rhine-Westphalia
Institute of Work and Technology
Institute for Culture Studies
Wuppertal Institute for Climate, Environment and Energy

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

Editorial

Dear Reader,

We regret that we must again postpone the promised analysis of the review of the Linking Directive. At the time of writing, the EU Commission had still to publish its report on the EU Directive governing integration of the CDM and JI mechanisms into the European Emissions Trading Scheme. How this might affect the contentious issues regarding carbon sinks and domestic offset projects remains to be seen.

This edition of JIKO Info instead contains a background article on emerging company-level emissions trading schemes which will further boost demand for credits from CDM and JI projects. The demand side is also the focus of our mini-series on carbon funds, which in this issue spotlights the World Bank's Umbrella Carbon Facility.

We wish you an interesting and informative read.

The Editor

Contents

JIKO News

Company-Level Emissions Trading Schemes Boost Demand for CDM/JI

Following the launch of the EU Emissions Trading Scheme, almost all other Annex B countries are now discussing the possibility of introducing their own company-level emissions trading schemes. Most such schemes are expected to allow use of CDM and JI projects for compliance and will further boost demand for them. JIKO Info looks at the current situation in the countries involved.

Emissions trading schemes (see box on page 2) are already in operation in the EU and Norway, Japan has introduced a small-scale pilot scheme and Switzerland plans to introduce obligatory emissions trading in 2008. Although the Australian and US governments refuse to ratify the Kyoto Protocol, states in both these countries are looking to introduce sub-national trading schemes. Increasing numbers of US Congress members are calling for a national emissions trading scheme. Similar discussions are also underway in Russia. By way of contrast, although Canada's former Liberal government had firm plans to introduce an emissions trading scheme in 2008, the new Conservative government has since questioned the country's Kyoto commitments in their entirety.

To be continued on page 2.

CDM Initiative

Great Opportunities for CDM in Arab States

The German Environment Ministry has increased its activities in the MENA (Middle East and North Africa) region. Memoranda of understanding and a series of workshops pave the way for improved bilateral cooperation on CDM projects. JIKO Info looks at the ministry's activities in the countries concerned.

Egypt

In a Memorandum of Understanding (MoU) signed between Germany and Egypt in June this year, economic cooperation will be stepped up to aid the use of CDM. The contracts for the Zaafarana wind farm – as yet the only German-Egyptian CDM project – were signed by KfW Bankengruppe in September.

To be continued on page 4.

JIKO News

Company-Level Emissions Trading Schemes Boost Demand for CDM/JI

Continued from page 1.

Like the EU ETS, the **Norwegian** emissions trading scheme has been in operation since 2005 and is very similar in makeup. This is also the case with regard to its use of the Kyoto Protocol's project-based mechanisms CDM and JI, in that Norway already allows use of Certified Emission Reductions (CERs) from CDM projects – with the exception, that is, of CERs from nuclear power and carbon sink projects. Hydropower projects with a capacity of more than 20 MW are subject to special procedures. Norway has also recently decided to adopt the EU Emissions Trading Directive in full and to link its national emissions trading scheme to the EU ETS from 2008 to fully harmonise the two schemes.

In **Japan**, the introduction of a legally binding national emissions trading scheme is highly controversial. The Japanese environment ministry thus launched a voluntary pilot scheme in spring 2006 to gain experience with the instrument and foster debate. The scheme involves a cap and trade system which is backed by subsidies. Businesses may propose emissions reduction projects and stand to receive subsidies of up to one third of their project costs. In return, they must agree to a fixed emissions reduction target for the facility concerned and are allowed to use CERs to meet their agreed targets. With only 32 participating businesses, the scheme is relatively small and will only run for a year. A second phase involving a different set of companies is planned for 2007.

The **Swiss** emissions trading scheme planned for 2008 is based on a carbon tax whose introduction will be decided this year. It is planned to allow businesses to be exempted from carbon tax if they negotiate a legally binding emissions reduction target for the period 2008 – 2012 with the government. Businesses who fail their targets are required to pay the full amount of carbon tax retroactively. In fulfilling their commitments, businesses will be allowed to use CERs from CDM, JI and domestic offset projects to meet up to 8 percent of their emissions reduction target. Businesses where emissions reductions are technically unrealistic or economically unviable, for example because they have recently entered the market and

Company-Level Emissions Trading Schemes

In the Kyoto Protocol, Annex B Parties agreed to quantified targets to reduce their greenhouse gas emissions. Each country received an **assigned amount** expressed in assigned amount units (AAUs), equal to one tonne of carbon dioxide equivalent. In line with Article 17 of the Protocol, Parties who exceed their assigned amounts may purchase AAUs from other Parties and add them to their assigned amount to balance their emissions account. They may also increase their assigned amount by purchasing Certified Emission Reductions (CERs) and Emission Reduction Units (ERUs) from CDM and JI projects.

With the launch of the EU Emissions Trading Scheme (ETS), the EU placed the former government-level scheme at company level. The businesses covered by the ETS are each allocated a share of their country's assigned amount and must develop strategies to allow target compliance. The maximum emissions (cap) allocated to businesses should be selected such that industry as a whole makes an appropriate contribution to meeting national Kyoto targets.

their facilities already use the best available technology, may use project-based mechanisms to cover up to 30 percent of their emissions reduction targets.

Canada's former Liberal government had developed highly detailed plans to introduce a Large Final Emitters System. This provided for large emitters in the energy sector and in industry to agree to an emissions baseline rather than being allocated an amount of allowances as is the case under the EU ETS. Businesses who kept their emissions below the baseline would have received carbon credits which they could then sell to businesses whose emissions exceeded their baseline (known as a baseline and credit system). To keep below their agreed baselines, participating businesses would have been allowed to use CERs and ERUs, permits from domestic offset projects and 'green' assigned amount units (see box on page 2); the latter were not however defined in detail. The Liberal government lost the election in January this year and the future of the system has since been thrown into question.

Australia's National Emissions Trading Taskforce, formed by the state and territory governments, has published a discussion paper on the introduction of a state-level emissions trading system and called for public input. The taskforce proposes a cap and trade system for the stationary energy sector and the use of CDM to allow linkage to the international carbon trading market. Among other things, the paper calls for public input on whether the use of CDM should be subject to any restrictions. The premiers of the various Australian states and territories will use the comments received in public input when deciding how to proceed.

In the **US**, the seven north-eastern states who are party to the Regional Greenhouse Gas Initiative (RGGI) have agreed on rules for an emissions trading scheme which they plan to introduce in 2009. The rules still have to be put before the legislature in each of the states concerned. Initially, the scheme will cover all fossil-fuel fired power stations with a capacity of 25 MW and over. If emissions allowances become particularly costly, facility operators will be allowed to use certificates obtained from CDM, JI and domestic offset projects, and from other national emissions trading schemes.

The state of **California** is also looking to introduce its own emissions trading scheme and a large number of representatives and senators in the US Congress have presented proposals for a national emissions trading scheme, most of which allow use of CDM and JI.

These various plans will boost demand for CDM and JI projects. Given the small scale of the schemes already in operation in Japan and Norway, they are not expected to have any great impact on the market. The picture could look different, however, if countries like Japan, Canada and even the US introduce legally binding national emissions trading schemes. Just how these might impact on the market will depend on how stringently those countries set their targets and whether and to what extent the use of CDM and JI will be subject to restrictions.

The ongoing debates in the various countries will play a significant role in shaping the future of emissions trading and thus in market stability. The wider the use of emissions trading and the more non-Kyoto countries that introduce it, the more certain its future when the first Kyoto commitment period expires in 2012. This in turn boosts the prospects for use of CDM and JI beyond 2012.

Further information:
The Wuppertal Institute has published a detailed study on the status of the emissions trading debate in the countries concerned. The paper, "Ready to Link Up? Implications of Design Differences for Linking Domestic Emissions Trading Schemes", is available for download at: http://www.wupperinst.org/Sites/Projects/rg2/3214d.html.

WSt

CDM Initiative

Great Opportunities for CDM in Arab States

Continued from page 1.

Egypt's project portfolio currently comprises 24 projects involving wind energy, hydropower, solar power, N_2O, cogeneration, heat supply, fuel switching, waste and reforestation. Few of the projects have been contracted for CDM. Project Idea Notes (PINs) are available for all project proposals and Project Design Documents (PDDs) have already been drawn up for ten of them. The German Environment Ministry plans to hold a Kyoto Business Meeting at the start of 2007 for which preparations are already underway. Interested businesses may contact the Joint Implementation Coordination Unit at the Federal Environment Ministry.

Source: KfW

Constructing the Zaafarana wind farm, Egypt

Information on potential projects, requirements and procedures is available on the Egyptian DNA website at: www.cdmegypt.org.

Tunisia

A Memorandum of Understanding between Germany and Tunisia has been agreed as regards content and is due to be signed some time this year. Kyoto-related economic cooperation with Tunisia is also to be intensified. With 53.1 points on the DEG's CDM Investment Climate Index, Tunisia ranks clearly behind Egypt (72.8 points) and Morocco (70.9 points), but its plans to use CDM already paint an entirely different picture: CDM projects are to achieve total emission reductions of 12.7 million tonnes of CO_2 equivalent by 2011. Tunisia expects around 360 CDM projects (60 projects per year) to be conducted by 2011 – largely in the energy and waste management sectors – and forecasts further emission reductions of 16.9 million tonnes of CO_2 equivalent for the period 2012 – 2016.

Further information:

- For an up-to-date overview on the current situation, see the CDM Market Brief published in August by DEG and the German Office for Foreign Trade (BFAI). The publication is available for download at: http://www.bfai.de/nsc_true/DE/Content/__SharedDocs/Anlagen/PDF/CDM/cdm-markt-tunesien-english,property=publicationFile.pdf#search=%22CDM%20Market%20Brief%20DEG%20Tunesien%22
- The Wuppertal Institute has drawn up a CDM Profile on Tunisia which will soon be published online at: www.wupperinst.org/jiko.
- Information from Tunisian sources can be found at: www.changementsclimatiques.tn

Israel

Negotiations on the German-Israel MoU are now in the final phase and it is hoped that the document will be signed by the end of this year. The German Environment Ministry intends to hold a workshop at the start of 2007. Ideally, the workshop will be of super-regional scope. Businesses inte-

JIKO Under New Management

The Joint Implementation Coordination Unit (JIKO) at the Federal Environment Ministry is now part of the ministry's newly founded Environment and Energy Directorate (Division KI I 4).

JIKO Contacts:

- Thomas Forth, E-Mail: Thomas.Forth@bmu.bund.de,
  Tel.: +49 (0) 30-28550-3668
- Julia Rüsch, E-Mail: Julia.Ruesch@bmu.bund.de,
  Tel.: +49 (0) 30-28550-3665

rested in conducting energy-related or non-CO_2 (particularly CH_4 and N_2O) related activities in Israel and Jordan may contact the Joint Implementation Coordination Unit at the Federal Environment Ministry, see box above.

TF

JIKO News

Impetus for Joint Implementation in Russia

Establishing a legal framework for joint implementation in Russia has been postponed time and again. Russia is now in the unfortunate position that JI project developers may not be able to fully utilise the Kyoto Protocol's first commitment period (2008 – 2012). Given the uncertainty regarding the future of the Kyoto Protocol beyond 2012, economic incentives for joint implementation may start to wear thin. Businesses and carbon funds could well start to turn their backs on Russia in the coming months.

In response to the situation, Russia's Deputy Minister of Economic Development and Trade Andrei Sharonov and Germany's Parliamentary Secretary of State Michael Müller (Federal Environment Ministry) agreed a detailed working programme for the next few months. Primarily, this involves creating a bilateral framework to allow businesses to engage in project activities and to use JI projects to provide modernisation opportunities in Russia. During his visit to the German Environment Ministry on 28 September, Vsevolod Gavrilov from the Russian Ministry of Economic Development and Trade and promoter of the Kyoto Protocol in Russia emphasised the practical importance of JI projects in the modernisation of Russia's energy industry. The two ministries agreed to hold a JI workshop for German and Russian businesses in Moscow on 11 – 12 December 2006. The workshop will also be used as a venue to present a Joint Implementation Guide for Russian Business which is currently being produced by the German Energy Agency (dena) in cooperation with Russian partners. Interested businesses may contact the Joint Implementation Coordination Unit at the Federal Environment Ministry (see box on top of this page).

Further information on the German-Russian working programme is available at: http://www.bmu.de/int_umweltpolitik/mittel_und_osteuropa/doc/37833.php

TF

JIKO Info Carbon Fund Series

The World Bank Umbrella Carbon Facility

The World Bank officially launched its Umbrella Carbon Facility (UCF) at the end of August. The new carbon fund will purchase emission certificates from large-scale CDM and JI projects. The UCF pools funds from existing carbon funds and other investors from industry to purchase emissions reductions for private and public clients.

The World Bank currently hosts a wide range of carbon funds. These include the Prototype Carbon Fund and the Community Development Carbon Fund, and also the Italian Carbon Fund and the Netherlands CDM Facility whose respective portfolios are tailored to specific countries or sectors. The funds are managed by the World Bank's Carbon Finance Unit (CFU). The financial resources of the existing funds are limited, however, which is why the World Bank has so far been unable to purchase emissions reductions from particularly large-scale projects.

With the aim of making such purchases possible, the World Bank has now created a ninth fund, the Umbrella Carbon Facility (UCF), which pools funds from multiple sources. About 75 percent of the funding represents private capital. The UCF is partly financed by the funds managed by the World Bank. Alongside the four mentioned earlier, these comprise the BioCarbon Fund, the Danish Carbon Fund, the Netherlands European Carbon Facility and the Spanish Carbon Fund. Private sector companies also participate as investors in the fund. Each purchase made by the UCF uses funds from differing private investors and funds managed by the World Bank.

According to the World Bank, the new carbon fund helps bring liquidity to the growing carbon market. It also reduces administrative effort: instead of signing an Emission Reduction Purchase Agreement (ERPA) for each individual fund, a single agreement with the UCF will now suffice.

The first successful transaction under the UCF was completed at the end of August when the CDM Executive Board registered two projects by Chinese chemicals companies in the province of Jiangsu. The projects involve incineration of HFC23 (Trifluoromethane) which is generated as a waste product in the production of refrigerants. HFC23 is one of the most potent greenhouse gases and has a global warming potential some 11,700 times greater than CO_2. Under the agreement, the UCF will purchase over 100 million CERs with a total value of 1.02 billion US dollars (€ 799 million). Private sector investors participating in the fund include Natsource Asset Management, Deutsche Bank, Climate Change Capital and several large energy companies. China subjects HFC projects to a tax amounting to 65 percent of the generated CERs and channels the revenue into its Clean Development Fund. The latter promotes climate change mitigation projects involving energy efficiency, renewables and use of mine gas.

For further details of the Carbon Umbrella Facility, existing projects and information for project developers, please see: http://carbonfinance.org

ChB

JIKO News in Brief

German Chamber of Commerce in China Holds Project-Matching Workshop in Beijing

The project-matching workshop hosted by the German Chamber of Commerce in Beijing (see JIKO Info 04/2006) will take place from 6 – 7 December 2006. The event is primarily designed to bring potential project partners from Germany and China together. Dedicated working groups will be available to explore issues like N_2O (nitrous oxide) and methane projects. Businesses will also have the opportunity to engage in informal, one-to-one discussions and to hold talks with official representatives. Project proposals, including those from German businesses, may still be submitted. Interested businesses should contact Georgia Badelt at the German Chamber of Commerce in Beijing: Georgia.Badelt@bj.china.ahk.de.

CDM Executive Board Plans CDM Project Marketplace

The CDM Executive Board has asked the UNFCCC Secretariat to create an online marketplace for CDM projects. The web-based platform will allow project developers and investors to discuss project funding and explore project opportunities. The UNFCCC Secretariat published its concept note for a CDM Bazaar in September. With the call for public input now closed, the CDM Bazaar is currently being developed in cooperation with the UNEP Risoe Centre and will go online in the near future. For more information, please visit: http://cdm.unfccc.int/public_inputs/bazaar/index.html

---

How-to Guide: National Institutional Frameworks for the Kyoto Protocol Flexible Mechanisms in Eastern Europe and the Commonwealth of Independent States

The UNDP Regional Center for Europe and CIS has published a new guide to assist decisionmakers in setting up the national institutional frameworks needed to conduct CDM/JI projects. The guide primarily targets countries in Eastern Europe and the Commonwealth of Independent States (CIS). The guide outlines the legal requirements and provides a general introduction to the Clean Development Mechanism (CDM) and Joint Implementation (JI). It also contains detailed guidelines on how to set up national authorities to approve CDM and JI projects. The guide is available for download at http://europeandcis.undp.org/?menu=p_publications and can also be ordered by e-mail from Anna Kaplina at anna.kaplina@undp.org.

JIKO Info

Edited by: Wuppertal Institute for Climate, Environment, Energy, Döppersberg 19, 42103 Wuppertal

Responsible for the contents: Wolfgang Sterk, Energy, Transport and Climate Policy Research Group, Wuppertal Institute for Climate, Environment, Energy, Tel. 0049-202-2492-149

Editorial Staff: Wolfgang Sterk (WSt), Thomas Forth (TF), Maike Bunse (MB), Dagmar Koths (DK), Christof Arens (final editing), Renate Duckat (RD), Christian Baatz (ChB)

Translation: Words-Worth, Stocks & Stocks GbR, Bonn.

Subscription: JIKO Info is distributed as an electronic resource only. Entry into the subscription list is free of charge.

Internet Adress for subscription: http://www.wupperinst.org/Sites/Projects/rg2/jiko-info/index.html

Layout: in_form, Wuppertal

JIKO Info covers current developments in the policy field project-based mechanisms in Germany. The newsletter is published as part of the project JIKO – Development phase 2005-2007 at the Wuppertal Institute for Climate, Environment, Energy (see http://www.wupperinst.org/Sites/Projects/rg2/1078.html). The editorial staff works independently from the JI-coordination unit at the German Ministry of the Environment.

JIKO Info is published quarterly and on special occasions.