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Wuppertal Institute for Climate, Environment and Energy

NEWSLETTER OF THE PROJECT "JIKO DEVELOPMENT PHASE 2007–2009" · WUPPERTAL INSTITUTE · RESEARCH GROUP ENERGY, TRANSPORT AND CLIMATE POLICY

Editorial

Dear reader,

Implementation of the Bali Roadmap is already underway with the first parallel meeting of the ad hoc working groups having just come to a close. Although the only real outcome of the meeting was agreement on the issues up for negotiation, it has certainly fostered debate on the future of the Kyoto Protocol's flexible mechanisms. Thus, the first article in this issue reports on the status of the debate on advancing the CDM and puts the proposals that have been made into the broader context of the post-2012 negotiations.

Global efforts to halt climate change can only be successful if Europe continues to act as a driver in climate change negotiations and leads by example. In January, the European Commission announced a proposal setting out how the climate package agreed last year might be implemented. While ambitious, the package also presents a number of obstacles as highlighted in our article on the EU Commission proposal. Emissions trading is set to be the key instrument in any future climate regime. Bearing this in mind, the EU would be wise at this juncture to give careful attention to advancing the EU Emissions Trading Scheme which has come to serve as the global model.

Having set the scene, I should now like to wish you an interesting and informative read.

Christof Arens
Editor

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April – June 2008

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Purposeful advancement or way off track?

Following the many delays experienced in launching the CDM, it is now up and running with hardly any hitches and is expanding apace. There are now some 2,974 projects (both registered and at validation) in the pipeline which together promise emission reductions in the region of 2.46 Gt CO_2-equivalent by 2012. The CDM continues to attract criticism, however, and negotiations on the future of the post-2012 climate regime signal that it is subject to change. JIKO Info reviews the situation to date and explains the CDM reforms currently under debate.

The CDM is the first mechanism of its kind at international level and as such it initially came up against considerable regulatory challenges. Despite these difficulties, it has generated billions in investment in only a matter of years: investment for the projects registered in 2006 alone is estimated at US$ 7 billion. The CDM has sparked an intensive search for cost-effective emission reduction options in many developing countries and in some areas has effected a significant move away from existing emission trends (e.g. N_2O and HCFCs). The chance of making a profit by cutting emissions has raised awareness to the problem of climate change in many countries.

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Sending reliable messages to the carbon market

EU Commission source of irritation with interim rules pending a post-2012 agreement

Many observers breathed a sigh of relief when the outcome of the Bali Conference was announced: a clear negotiation plan through the end of 2009 which is both realistic and ambitious. Nonetheless, at every public event relating to the Kyoto mechanisms, the proceedings are dominated by concerns as to how the carbon market might develop beyond 2012. Taking the snapshot approach, JIKO Info looks at what investors, buyers and project developers have to say.

As long as the role of the CDM and JI in a post-2012 agreement remains unclear, project developers can only rely on CER revenue until 2012. While the partial funding secured through CER revenue until 2012 may be of relevance for larger-scale projects scheduled to be completed by the end of 2009, for new projects with a later start date, the amount of partial funding generated from CERs dwindles as time goes by.

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Renewable energy projects an ongoing success. Of the 978 registered projects in the CDM pipeline, 134 focused on wind energy. This makes this category the third most frequent behind biomass (199) and hydropower (177) projects. As of February 2008.
Photo: © Vesta

The CDM is, however, hampered by numerous weaknesses which affect both its usefulness as a financing instrument and its environmental integrity.

Firstly, the financial incentive arising from additional CER revenue is limited on many counts: although projects usually need financing up front, meaning before they commence, the predominant business model under the CDM is payment on delivery. Also, CDM project development involves high transaction costs which largely occur before the start of a project and so exacerbate the problem of finding funding up front. The additional CER revenue accrued is heavily burdened with risk in that project developers do not always know if their project will in fact be registered, if the expected emission reductions will be achieved and how much they can expect to receive for their CERs at the end. Given these risks, banks often refuse to consider CER revenue when deciding whether to approve a loan for a CDM project. Finally, for some project types (many renewable energy uses, for example) the current price of CERs is too low to have any significant effect on project viability.

Many critics also claim that compared with the challenge posed by climate change, the CDM's project-based approach provides little incentive for sectoral transformations of any meaningful size. By its very nature, the CDM mechanism is restricted to local-level activity. Although the programmatic CDM has potential for further expansion, it is still not clear whether this potential can actually be realised. There are also some doubts as to the additionality of projects currently in the pipeline and thus to the environmental integrity of the CDM per se. A study conducted by Öko-Institut at the end of 2007 concluded that for 40 percent of projects registered so far additionality was either unlikely or questionable. Given that only about 2.4 billion CERs are expected to be generated by 2012, the CDM would thus clearly undermine the environmental effectiveness of the Kyoto Protocol.

For some time now, talk has focused on supplementing or replacing the existing bottom-up project-based CDM with sectoral approaches of a more top-down nature (see Box on p.3).

Such approaches could circumvent the necessity to evaluate the additionality of each individual investment decision and, by their very nature, would provide stimulus for transformation at sectoral level. There are, however, a number of issues that would need to be clarified before such instruments could be introduced.

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Firstly, quantification of emissions and reductions at sectoral level is likely to rely on models and projections. These produce inherent uncertainties and thus challenge the instrument's environmental integrity. Incorrect quantification of emission reductions at sectoral level would have a significantly greater adverse effect on the climate than the individual project approach. This path should therefore only be taken if it can be ensured that emission reductions at sectoral level are adequately quantifiable.

Secondly, policy-based approaches throw the issue of additionality back into question. Governments in the South would naturally argue that policies would not be adopted without CERs. Climate change mitigation measures unearth a whole range of uses, though — reducing dependency on and the costs of fossil fuels, fostering technological advancement, and so on. Baselines must also be dynamic because, for example, an efficiency standard that will still be extremely stringent in a year's time will eventually become business as usual.

Thirdly, the question arises as to how strong the incentive would be for climate-friendly development fostered by such mechanisms. This takes in two things. Firstly, there is the type of instrument involved: the sectoral approaches under discussion would mean a clear break from the CDM in its present form because developing country governments rather than project developers would be in the driving seat. The actual investment, however, usually comes from the private sector. For them, a sectoral target or policy-based approach would at best bring only indirect financial benefit and even that would be dependent on the government passing on its CER revenue.

Secondly, sectoral approaches give rise to questions regarding potential supply and demand on the emissions trading market. Demand is determined by policy that sets emission reduction targets for industrialised nations and by the efforts they make in their own countries. The supply of potential emission reductions in the South is huge: a study carried out jointly by Ecofys and the Wuppertal Institute on behalf of the Federal German Environment Ministry estimates the potential in six key emerging economies (Brazil, China, India, Mexico, South Africa and South Korea) in 2020 at 5.8 Gt CO2-equivalent (see JIKO Info 1/2008). By way of comparison: a cut in emissions in industrialised nations, from current levels to 30 percent below those in 1990 by 2020, equates to some 5 Gt CO2-equivalent. Plus, exploiting the potential in emerging economies is not merely an option but an absolute necessity. There is no other way to curb the rise in global emissions in the

CDM reforms

- In the case of sectoral CDM, a baseline would be set for a whole sector rather than for individual projects – for the cement sector in a given region or in an entire country, for example. This baseline could be activity-related, e.g. as a benchmark for CO_2 emissions in cement works. Works whose emissions stay below the baseline would receive CERs. Another option would be to monitor emissions from a given sector as a whole and allocate CERs if actual emissions remain below the business as usual projection. This type of approach would be comparable to a developing country agreeing to a voluntary emissions target for a particular sector.

- As a result, some camps propose abandoning the sectoral CDM in favour of voluntary sectoral targets for developing countries — the main difference being that a target can be negotiated at policy level and set at a level below the baseline. The developing country would then have to first contribute to climate change mitigation by itself before it could receive CERs.

- With the proposal for a policy-based approach, CERs would be allocated for specific policy measures which bring emissions below the business as usual level. This approach would allow governments to introduce things like feed-in tariffs for renewables-generated electricity, receive CERs for the emission cuts achieved and use them to finance the feed-in tariffs.

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coming decade. Climate researchers say that halting the rise in global emissions within the next decade is necessary to keep the rise in the Earth's average temperature below 2° Celsius, as called for by the EU.

What must also be taken into account is that monetarisation of CO_2 emissions in the form of emissions trading alone is not a sound enough basis on which to achieve climate-friendly development. The investment needed is often hampered by a range of different obstacles, both economic and non-economic. Thus, pricing instruments must always be supported by additional sectoral and technology-specific instruments to ensure that all existing barriers are removed.

Advancing the CDM should also be considered in the context of the ongoing Bali Roadmap negotiations on post-2012 emissions targets for industrialised nations, funding mechanisms and mechanisms for technical cooperation between industrialised and developing nations. The challenge here is to come up with a coherent package of mechanisms which as a whole will effect much-needed structural change. **WSt**

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Against this backdrop, a new KfW facility offers the possibility of insuring against CER-related risk beyond 2012 (see Box below). Many observers see this announcement as a first sign of encouragement for investors and project developers in the carbon market. However, the mood in the carbon market has clearly deteriorated since the publication of the EU Commission's proposal to amend the Emissions Trading Directive (see Box on page 5): many market players believe the proposals on using CDM/JI in the EU Emissions Trading Scheme are inadequate and in many cases counterproductive — not least the sub-working group on flexible mechanisms, an arm of the working group on emissions trading (AGE) at the German Environment Ministry. When looked at from a project-based mechanisms standpoint, the proposed directive could be described as "water instead of wine". Such criticism is particularly sparked by the proposed interim rules for the period beyond 2012 in the absence of a post-2012 agreement. The proposal, again in the absence of a post-2012 agreement, of only allowing left-over CDM/JI-generated allowances accrued before 2012 to be used in the EU Emissions Trading Scheme results in national imbalances between the Member States: those that are not particularly active in the Kyoto markets are more likely to have allowances left over.

The Commission proposal could also mean that the EU Member States could choose not to use up their full CDM/JI allowances by 2012 in order to secure continued access to the carbon market. This could well pay off in Germany's case: it was not without the EU Commission's input that Germany set its maximum thresh-

KfW provides funds for post-Kyoto carbon credit acquisition

Buyers can already commit to buying carbon credits beyond 2012 to help get future projects off the ground. European funding banks have founded the EIB Post 2012 Fund specially for the purpose. Along with the European Investment Bank (EIB) and KfW, the founding members comprise Spain's Instituto de Credito Oficial (ICO) and the Helsinki-based Nordic Investment Bank. The banks are making some €120 million available for the purchase of post-Kyoto carbon credits. KfW's share amounts to €25 million. A special-purpose entity will be set up to operate the fund under an independent fund manager. The fund will start its purchasing activities in the first quarter of 2008. A prerequisite for purchasing post-2012 carbon credits is that the projects in question already generate CERs during the 2008-2012 Kyoto commitment period.

www.eib.org
www.kfw.de

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old for CDM/JI at 90 Mt CO_2-equivalent. If German participants in the EU Emissions Trading Scheme were to work on the basis of national needs, the Commission's proposal could generate some 54 Mt CO_2-equivalent in CERs/ERUs which could be used beyond 2012.

This is clearly illustrated in the adjacent table: average emissions in the emissions trading sector amounted to 479 Mt per year in 2005–2007. Added to these come another 10 Mt CO_2-equivalent for the period 2008–2012 which are generated by further facilities which have since joined the emissions trading scheme (for example in the chemicals industry). The carbon budget for the emissions trading sector has been set as 453.1 Mt for the period 2008–2012. This represents a reduction of about 36 Mt compared with current levels. The CDM/JI upper limit is 90 Mt per year. Even if the required reductions were to be achieved solely via the CDM/JI and without any domestic efforts, there would still be 54 Mt left over which could either be sold under the EU Emissions Trading Scheme or transferred post 2012.

	Present [CO_2 e]	Target [CO_2 e]
2005–2007	479 Mt	
2008–2012 additional	10 Mt	
Total	489 Mt	453.1 Mt
Required reductions		35.9 Mt
	CDM/JI Upper limit	90.0 Mt
	Difference Required reductions and CDM/JI upper limit	54.1 Mt

Proposal to amend the EU Emissions Trading Directive

With the proposals issued in January 2008, the European Commission announced a package of ambitious climate change mitigation measures. Many of the proposals it contains would have serious impacts on the market for the Kyoto CDM and JI mechanisms. One such proposal involves abolishing the existing system of national allocation plans in which the Member States agree upper limits for industrial emissions under the emissions trading scheme. The cap for the EU Emissions Trading Scheme is now to be set at EU level.

The Commission proposes a 21 percent reduction in emissions covered by the ETS by 2020 (compared with levels in 2005). This means an average annual upper limit for the emissions trading sectors of 1.8 GT CO_2-equivalent for the period 2013 to 2020. The number of free allocations is also to be reduced: by 2020, these will be completely withdrawn and replaced by auctions. The energy sector will switch to an auctioning-only system from 2013.

The Commission proposal provides two scenarios for counting CDM and JI-generated CERs:

- If negotiations fail to result in a new international climate change agreement, from 2013 facility operators will be allowed to use leftover CDM/JI CERs generated in the 2008-2012 period. To do so, they must ask the respective state to swap CERs generated between 2008 and 2012 for ones valid from 2013. CERs from new energy efficiency and renewables projects may also be used if agreements are signed with the respective host countries and the CERs do not increase the overall number of available CERs.
- If a completely new climate change agreement is signed which sets a more stringent target for the EU than 20 percent, the number of usable CDM/JI-generated CERs will automatically be increased by half of the additional effort (target quantity) needed. However, CERs will only be accepted from projects in countries that have ratified the new agreement. CERs from sink projects will still be exempt from use after 2012. The new package of measures must still go before and be ratified by the Council of Ministers and the European Parliament.

Further information by way of a detailed description of the Commission proposal is available on the JIKO website at www.jiko-bmu.de/414 (in German only).

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CO_2 emissions from lignite play a key role in climate change. The carbon emissions factor of lignite is 404 grams per kilowatt hour and thus double that of natural gas. In Germany, lignite makes up 11 percent of energy consumption and 25 percent of electricity supply (as of 2005). The photo shows the Boxberg lignite-fuelled power plant in Germany's Oberlausitz region.
Photo: Photocase.com © tomka01.

Project registrations at the German Emissions Trading Authority (DEHSt) show that the annual CDM/JI upper limit has not (yet) been reached. However, at the beginning of the second ETS trading period, it is far too early for any reliable empirical conclusions to be drawn as to whether this will remain the case. That having been said, the German estimates will not be very encouraging for other Member States wishing to exploit their upper limits. Observers thus focus their criticism on the imbalances in the opportunities available to the various EU Member States.

Most critics do, however, admit that a strategic approach should be taken in the negotiations on a post-2012 agreement. What the Commission is trying to do is to create additional incentives for CDM/JI host countries to sign an agreement because this brings a significant increase in the allowable quantities generated from CDM/JI activities (see Box on page 5). This gives host countries the impression that if they sign an agreement they will be able to sell a considerable number of CERs. However, critics say the EU's credibility will be tarnished if the dynamics of the carbon market are slowed to the extent currently seen in response to the Commission's proposals. In the absence of a post-2012 agreement, the proposals only allow very limited quantities of CDM/JI-generated CERs. The Commission thus fails to send the much hoped for message that the mechanisms will play an important role beyond 2012 come what may.

The EU Commission package announced in January also proposes allowing new projects in certain sectors only — such as projects to increase energy efficiency and promote use of renewable energy sources. While these proposals are a step in the right direction, they fall short of what is needed: although for the most part, the reference to renewables and energy efficiency serves Member State intentions, it fails to recognise potential in other areas (such as waste management) where the Kyoto Protocol's project-based mechanisms might be used. This need not necessarily take in gas flaring projects as there is great potential for more mature waste management solutions — plants with biomechanical treatment phases, for example.

In its proposed interim rules, the Commission also provides for bilateral agreements to

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serve as the basis for recognising carbon credits from CDM and JI projects. Observers viewed this proposal as particularly problematical. It is hard to imagine that the EU Commission could enter into such agreements with each and every eligible host country. If this option were to be left to Member State management, it would lead to an unpredictable number of different agreements — in other words, it would open the floodgates to arbitrariness.

On the whole, the interim rules contained in the Commission's proposal send no reliable message to the carbon markets. Nonetheless, even if these interim rules are abandoned in favour of clearer quantity targets and project types, some form of encouraging statement is needed about the role of the CDM and JI in the post-2012 period. The CDM and JI should not be stamped as leftovers from the EU Emissions Trading Scheme, but — especially in the case of the CDM — should be developed as a mechanism with which to integrate developing countries. This applies both to today's carbon markets and to future contributions from developing countries. **TF**

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Feel-Good Factor or Inconvenient Truth?

The voluntary carbon market enjoys rapid growth yet there are concerns that some projects could jeopardise the market as a whole

by Ingo Ramming, Carbon Trade & Finance

The carbon market is the fastest growing financial market of recent years. While just under 800 million tonnes were sold in 2005, the trade volume in 2007 amounted to approximately 2.7 billion tonnes valued at more than €40 billion. Although with its 60 percent share, the EU emissions trading scheme continues to dominate the market, global trading is gaining in importance. This is where the voluntary market plays a key role: it comprises all sales in which the buyer does not acquire carbon credits with the aim of meeting for example existing Kyoto or EU ETS obligations, but in order to cancel them on a voluntary basis. Last year, sales in this segment reached around 100 million tonnes. In contrast to the compliance market, demand from American buyers plays a significant role. Almost 23 million tonnes were sold on the Chicago Climate Exchange alone.

With growing public awareness to the risks of climate change and the associated image of climate-aware business, most market players expect even greater growth in this segment. One of the biggest factors is the effort made many companies and individuals to neutralise their own (unavoidable) emissions. A recent study published internationally by the ICF forecasts that demand from companies for this reason alone will grow to 200 million tonnes in 2012.

The main risk associated with future growth involves the integrity of the voluntary market. Last year especially, some projects attracted clear criticism as did the cowboy mentality of some market players. In these (isolated) cases, the Project Idea Note was apportioned greater importance than actual project implementation and sales involved carbon credits that had either been sold more than once or whose quality was dubious. While this brought loud calls for state intervention or policy-based solutions, what went unrecognised was that to a certain degree, state intervention contradicts the idea of the voluntary market and the main focus should really be on voluntary self-regulation by market players and their organisations. Also, in view of the rapid response to such criticism and the establishment of a variety of different standards, the market and the participating private organisations and associations

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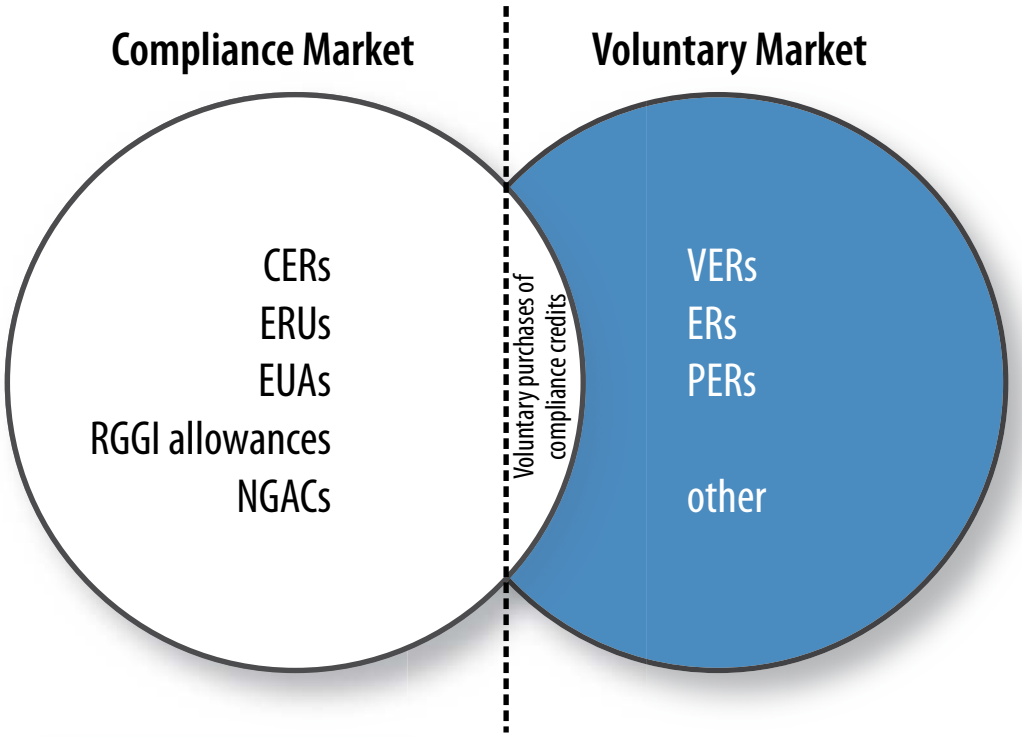

CERs Certified Emission Reductions
ERUs Emission Reduction Units
EUAs EU Allowances
NGACs New South Wales Greenhouse Gas Abatement Certificates
VERs Verified Emission Reductions
ERs Emission Reductions
PERs Prospective Emission Reductions

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have no choice but to respond rapidly in order to safeguard their own interests. Generalisation of such criticism places both the integrity and future growth of the entire market at risk.

What is needed are independent, credible, transparent standards and fewer new policy rules. The table on page 9 gives an overview of existing standards and clearly shows that a variety of standards from different organisations aid buyers in purchasing quality carbon credits. Using their own registers and databases, the most popular standards guarantee that credits are set aside or deleted in order to avoid them being sold more than once and to prevent fraud.

Despite the need for standards and rules, self-regulation by buyers must play a decisive role in the voluntary market. When all is said and done, climate neutrality is not about setting up some kind of discount trader whose guiding principle is "the cheaper the better", but about fostering a credible turnabout in attitudes with the ultimate aim of reducing home-grown GHG emissions and neutralising unavoidable emissions through the purchase of credible carbon allowances. Alongside the debate and in the search for "gourmet" credits, consideration must be given to the fact that especially in the quest for greater quantities, the current supply of voluntary emission reductions (VERs) lags way behind demand. This is why many buyers purchase Kyoto allowances that are generated under the CDM or JI so as to avoid the reputation-related risks involved in purchasing lesser-quality carbon credits. For example, at the beginning of 2007 the German government decided to make all official travel

For more on the ICF study, see http://www.icifi.com **or** http://www.icfi.com/Newsroom/News.asp?ID=124

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Standard name	Sponsoring organisations	Volume certified to date (t CO_2)	Project types	Additionality requirements	Registry
Gold standard for voluntary emission reductions (VGS)	Gold standard foundation	350,000	Renewable energy, energy efficiency	Same as UN	Gold Standard database
VER+	TUV SUD	383,932	Any except nuclear, large hydro	Same as UN	Blue Registry
Voluntary offset standard (VOS)	International Carbon Investor Services (INCIS)	N.A.	Any except nuclear, HFC-23, large hydro	Same as UN	—
Community Climate Biodiversity (CCBA)	CARE, Nature Conservancy, Rainforest Alliance, others	45,695	LULUCF	Various: financial, political barriers, common practices, etc.	CCBA database
Carbon Financial Instrument	Chicago Climate Exchange (CCX)	15,000,000	Methane, soil, forestry, renewables	Benchmark: beyond BAU; top performer	CCX
Voluntary carbon standard (VCS) version 1-3	IETA, Climate Group, World Economic Forum	1,860,000	List of 15 categories; LULUCF, others tbd	Includes performance standards, barrier analysis	TBD
Draft Green-e standard for carbon reductions	Center for Resource Solutions	—	Not specified	Allows benchmark test (top 10% efficient technologies)	—

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The full IETA study is available at http://www.ieta.org **and** http://www.ieta.org/ieta/www/pages/getfile.php?dicID=2424

climate-neutral and to buy carbon credits from renewables and energy efficiency projects that meet the quality criteria set out in the Kyoto Protocol.

With the growing awareness, especially in the US, of the risks involved in climate change, the voluntary carbon market — along with the compliance market — will see significant growth in the coming years. In a study published in June 2007, the International Emissions Trading Association (IETA) estimated annual demand from this segment at as much as 400 million tonnes for the period 2008 to 2012 and nearly 800 million tonnes between 2013 and 2017. New rules and standards will not be needed: in future, market players will concentrate on specific standards that are both transparent and credible. A strong rise is also expected in the next few years in the role played by and the demand for Kyoto allowances generated in the voluntary market (particularly the renewables and energy efficiency sectors).

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Workshop on EU harmonisation during implementation of the WCD Guidelines

by Julia Rüsch (BMU) and Malin Ahlberg (DEHSt)

On 28/29 February 2008 the German Environment Ministry and the German Emissions Trading Authority (DEHSt) hosted a workshop in which representatives from the EU Member States discussed implementation of the recommendations put forward by the World Commission on Dams (known as the WCD Guidelines). The aim of the workshop was to agree a common understanding of the requirements regarding large-scale hydropower projects as set out in the EU Emissions Trading Directive. Apart from various stakeholders, workshop participants included representatives from the EU Commission and from the Member State authorities responsible for approving CDM/JI projects.

The Linking Directive (Directive 2004/101/EC) governs the integration of the CDM and JI into the EU Emissions Trading Scheme. The Directive also defines eligibility for certain project types: large hydropower projects in excess of 20 MW are only eligible if they comply with WCD requirements (see Box on page 11). Actual implementation of these requirements is, however, left to the respective EU Member States.

At present, there are great differences in how the Directive is being implemented in the various Member States. Germany believes, for example, that the requirements can only be met by supplementing generic proposal documents with a report on compliance with the WCD Guidelines (see JIKO Info 04/2007). Another option is for project developers themselves to confirm in writing that they have complied with the WCD Guidelines.

These very different approaches have led to great uncertainty in the carbon market as regards approval of hydropower projects, which in turn raises doubts as to whether CERs generated by such projects can be used in the EU Emissions Trading Scheme. This market uncertainty has, for example, resulted in the European Energy Exchange (EEX) excluding CERs generated by large-scale hydropower projects from being traded in its CER Futures exchange. But at the same time, the number of large hydropower projects in the CDM pipeline grows apace and currently stands at more than 700. Of these, around 45 percent have capacities in excess of 20 MW. For this reason, the EU Member States, the EU Commission, stakeholders, experts, carbon allowance sellers and traders alike all see an urgent need for harmonisation in order to secure the social and environmental integrity of the projects involved and to set out clear and transparent market requirements. While large hydropower plants can make a significant contribution to climate-

816 hydropower projects are currently in the CDM project pipeline. This represents 25.6 percent of projects overall. The CDM Executive Board has already registered 177 hydropower projects. These will generate 64,370,000 CERs by 2012.
Photo: Michael Connors, morguefile.com

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neutral electricity generation, they can also have serious effects on people and the environment. The WCD Guidelines set out a comprehensive, integrated approach to planning, development and operation of large dam projects with a view to avoiding or minimising the negative social and environmental effects (see Box below). Speaking from experience gained in everyday development cooperation practice, these principles were taken up on the first day of the workshop by experts from GTZ, BMZ and KfW.

The complex requirements of the WCD Guidelines were illustrated in presentations made by NGOs such as International Rivers and the WWF. Negative examples highlight the damage that can be done if the impact of a planned project activity is not adequately assessed in advance. This can be done, for example, in the form of an environmental impact assessment or a stakeholder process. Ignoring this requirement can lead to shortages of drinking water and the loss of food resources (fish stocks and agricultural products).

In the discussion that ensued, the Member State representatives emphasised the difficulties experienced in applying the WCD Guidelines. They agreed that clear, operable criteria must be found both for approval authorities and for experts. The at times very different standpoints became less so as the workshop progressed, with the participants deciding that a working group would draft an implementation proposal. The draft should clarify the precise scope of application of the relevant Article 11 b (6) of the Linking Directive and describe how the WCD criteria can be applied. At the first meeting of the working group, Germany presented an initial draft which is currently being evaluated in a round robin process. The results will be taken up by the Working Group on the Review of the EU Emissions Trading Directive and can be adopted in the form of a voluntary agreement at that level.

The workshop has shown that there is both great interest and a great need for knowledge and exchange on all sides, including among stakeholders. This should be continued via the working group. The Member States were unanimous in their decision that the harmonised EU approach should be enshrined at international level in a UN process further down the line.

WCD Guidelines

The World Commission on Dams published its final report in November 2000. The report serves as the basis for evaluation of dam projects (WCD Guidelines). In the decision-making process, five principles must be taken into account: justice, sustainability, efficiency, participative decision-making and accountability. These five principles are applied via the seven strategic priorities assigned to the three phases of a project: planning, development and implementation. In each phase, the evaluating authority must assess compliance with the strategic priorities before the next phase begins. The seven strategic priorities are:

- Gaining public acceptance
- Comprehensive options assessment
- Addressing existing dams
- Sustaining rivers and livelihoods
- Ensuring compliance
- Sharing rivers for peace, development and security

For further information, see **http://www.dams.org/**

Imprint

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Translation of pages 6–8:
Words-Worth, Stocks & Stocks GbR, Bonn

Subscription:
JIKO Info is distributed in electronic form only. Entry into the subscription list is free of charge.

Internet Address for subscription:
www.wupperinst.org/jiko

Layout:
VisLab, Wuppertal Institute

JIKO Info
covers current developments in the policy field project-based mechanisms in Germany and worldwide. The newsletter is published as part of the project JIKO Development phase 2007–2009 at the Wuppertal Institute for Climate, Environment and Energy (see www.wupperinst.org/jiko). 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.