



This newsletter is published as part of the project "JIKO – Development phase 2002-2004" at the Wuppertal Institute for Climate, Environment, Energy – Energy, Transport and Climate Policy Research Group

Dear Reader,

On 31 March 2004, the German Cabinet agreed the National Allocation Plan and prior to Easter the EU Environment Council and the European Parliament reached agreement on the text of the directive linking the project-based mechanisms to EU emissions trading. The directive can therefore be passed before the end of the European Parliament's legislative period in June. The general framework for the use of CDM and JI is thus becoming ever clearer. In an interview with JIKO Info that was conducted before the agreement with the Council, Alexander de Roo, Rapporteur of the European Parliament Environment Committee, explained the background of the final negotiations. You can read the entire interview as well as other background articles in this issue of JIKO Info. Thank you for your interest.

The Editor

JIKO News

Wuppertal Institute Starts Discussion Process on CDM Projects of Local Development Associations

At the end of April, as part of its project "JIKO – Development Phase 2002–2004", the Wuppertal Institute will begin its multi-stakeholder dialogue "CDM Projects: New Ways for the Work of Local Development Associations in Germany?"

The discussion process focuses on the issue of whether the CDM can make a useful contribution to the work of local German development associations as well as whether and how it can be simplified.

The Wuppertal Institute will produce a background paper on the possible potential of the CDM by mid-April to serve as a basis for the discussions. The paper will present a theoretical discussion of the technical problems small-scale projects are faced with and use selected project examples to further illustrate them.

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JIKO News

CDM/JI Programmes, Carbon Funds and World Bank Carbon Funds

In the context of the upcoming European Emissions Trading System and the possibility of the Kyoto Protocol entering into force in the near future, a number of EU Member States have already taken steps to purchase emission certificates. These basically involve the Carbon Funds of the World Bank, national CDM/JI programmes, public private partnerships and private carbon funds.

World Bank funds include the Prototype Carbon Fund (PCF), the Community Development Carbon Fund (CDCF), the BioCarbon Fund, the Italian Carbon Fund and the Netherlands CDM Facility. These all involve public private partnerships in which both governments and private industry can participate.

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Wuppertal Institute Starts Discussion Process on CDM Projects of Local Development Associations

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The paper will also discuss institutional solutions suited to implementation in Germany and for which there are already international models.

The results of the paper will be discussed at an expert workshop in late April/early May. The aim of this event is to discuss the paper's conclusions and to assess whether and in what form the CDM can be a useful instrument for local development associations.

Anyone interested in participating in the discussion process can register by sending an e-mail to: jiko@wupperinst.org

Further details on the discussion process are available at: <http://www.wupperinst.org/Projekte/fg2/1078a.html> [in German]

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JIKO News

CDM/JI Programmes, Carbon Funds and World Bank Carbon Funds

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For example, the PCF currently comprises a partnership of 17 large businesses and 6 governments. Most of the certificates that will be bought will come from CDM/JI projects and can thus be used for emissions trading.

Carbon funds of this type are also being developed at the national level. These include the KfW Carbon Fund in Germany and the Italian Carbon Fund. They aim to give businesses the opportunity to buy certificates that can be used under the European Emissions Trading Scheme without having to develop their own projects. By way of contrast, the Spanish Carbon Fund is a purely private carbon

fund and was jointly initiated by CO2e.com, CO₂ Spain and Baker & McKenzie.

National CDM/JI programmes are structured slightly differently, with most being constituted of calls for tender to initiate specific projects from which certificates are generated. With its ERUPT (Emission Reduction Unit Procurement Tender) and CERUPT (Certified Emission Reduction Unit Procurement Tender) schemes, the Netherlands is the forerunner of national CDM/JI programmes. Finland and Austria, and more recently Belgium, have also adopted this approach. While the Netherlands and Austria have opted for large-scale programmes (with approximately EUR 200 million annually and EUR 217 million for the period 2003-2010 respectively), Finland has chosen a pilot programme comprising mainly small-scale projects.

EU 15 Member States	Status Quo Compliance Gap 2008–2012 CO ₂ eq. in million t	Type of Fund / Programme including scale
Austria	88.7	Austrian CDM/JI Programme (EUR 217 million); CDCF
Belgium	97.8	JI/CDM Tender (EUR 10 million, Starts end 2004)
Denmark	72.5	State reserves for CDM/JI projects (approx. EUR 45 million; planned participation in international funds)
Finland	18.3	Finish CDM/JI Pilot Programme (approx. EUR 8.5 million); PCF (approx. EUR 9 million)
France	11.8	. / .
Germany	164.9	KfW Carbon Fund (EUR 15 million)
Great Britain	17.2	. / .
Greece	-8.5	. / .
Ireland	48.3	. / .
Italy	353.3	Italian CO ₂ Fund (PCF, US \$ 15 million); CDCF (US \$ 7 million)
Luxembourg	-23.4	. / .
Netherlands	106.2	ERUPT/CERUPT (approx. EUR 200 million/year); Dutch CDM Programme (PCF, US \$ 10 million); CDCF
Portugal	28.9	. / .
Spain	247.3	Spanish CO ₂ Fund
Sweden	-26.5	PCF

Overview of compliance status and programmes for the purchase of emission certificates in EU 15 states.

The signatory states to the Kyoto Protocol have accepted a binding commitment to specific emissions reduction targets. The difference between their projected emissions and the number of Assigned Amount Units (AAUs) results in what is termed as the 'compliance gap' – the gap between obligation and fulfilment.

The table gives an overview of the compliance gap and the carbon programmes of the respective EU Member States. Great variations are evident in the number and size of individual programmes or funds. Programmes have mainly been initiated in those countries whose compliance gap is especially big. The Netherlands deserves special mention, having made wide-ranging provisions as to the number and size of its funds and programmes. The situation in Italy, and certainly in Spain, must be viewed with rather more scepticism: if they are to close their respective compliance gaps, they will need to do a lot more in addition to implementing carbon funds.

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JIKO Interview

"A signal to European Industry" Interview with the Rapporteur of the European Parliament's Environment Committee on the Linking Directive

The negotiations about linking the project-based mechanisms CDM and JI to the European Emissions Trading System are entering their decisive phase. In March, the Environment Committee of the European Parliament adopted its Decision on the so-called "linking directive". JIKO Info spoke to Alexander de Roo, Rapporteur of the Environment Committee, about the negotiations between the European Parliament and the EU Council of Environment Ministers.

JIKO Info:

On March 17th, the European Parliament's Environment Committee adopted its Decision on the Directive linking JI and CDM to the future European Emission Allowance Trading. How do you as the Rapporteur of the Environment Committee evaluate the vote of the Committee?

Alexander de Roo:

I am very happy with the decisions adopted in the Environment Committee. All nine amendments that I proposed have been adopted. In addition to that some other amendments have been adopted that even exceed my proposals. This gives me sufficient room for manoeuvre in the negotiations with the EU Council of Environment Ministers.

JIKO Info:

The supplementarity requirement, the obligation to use the flexible mechanisms CDM and JI "supplemental" to domestic action, is a major issue of the debate. You proposed an overall cap for member states of 50% of the reduction effort that is to be fulfilled domestically. Others argue for a cap per installation. Where do you think will the negotiations with the EU Council of Environment Ministers lead to in this point?

Alexander de Roo:

Supplementarity is the issue that is most important to me. From my point of view the suggested cap on the entity level does not make sure that member states comply with the supplementarity requirement. For example, the Netherlands announced that they are going to buy 50% of their reduction commitment from abroad. If the Dutch companies acquired another 50% of their reduction commitment abroad, the Netherlands as a whole would acquire 75%. I therefore strongly advocate a cap on all flexible mechanisms – CDM, JI and International Emissions Trading – on a Member State level. This is also the position of the Environment Committee.

JIKO Info:

The ratification of the Kyoto Protocol is still uncertain. The Environment Committee wants the Linking Directive to come into force independently from the Protocol and to allow CDM credits from 2005 on. Which signals do you wish to send with this decision?

Alexander de Roo:

Above all, this decision is a signal to the European industry. The message we wish to convey is: "Start now to invest in CDM/JI projects, you don't have to wait for the Kyoto Protocol to enter into force." And it is a signal to Russia. It underlines the European Union's willingness to implement the Kyoto Protocol's commitments, independently from

Russian ratification of the Protocol. It is a signal that Russia will not be able to get a higher price for its ratification, the price is already high enough.

JIKO Info:

The Environment Committee's decision explicitly excludes sink-projects. Do you see conflicts emerging due to this decision?

Alexander de Roo:

Let me be very clear about this: The Environment Committee wishes to exclude sinks from EU Emission Allowance Trading and the European Commission shares this view. But a blocking minority in the Council is against the exclusion of sinks projects so there obviously is a conflict. Obviously, these opposing views have the potential to provoke a delay of the adoption of the Linking Directive.

JIKO Info:

Will the Directive be passed until the 20-23 April target date?

Alexander de Roo:

All depends on finding a compromise between the European Parliament and the Council. In order to reach an agreement, the Council must move with respect to the following three points: supplementarity, exclusion of sinks, use of the guidelines of the World Commission on Dams for large hydro projects. If the target date is not met, EU Emission Allowance Trading will enter into force without linking and then the member states have a problem. But this is not my problem.

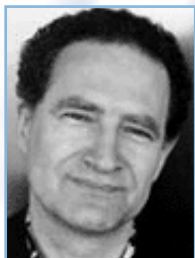


Photo: Bob Bronshoff

Alexander de Roo is the Rapporteur of the European Parliament's Environment Committee on the planned Linking Directive and Vice-president of the Committee. He has been a member of the European Parliament since 1999.

The interview was conducted by Thomas Langrock.

JIKO Guest Contribution

Report on the Workshop "The Clean Development Mechanism and Its Possible Contribution to Sustainable Energy Policy" held in Mexico City in February 2004

By Dieter Seifried

Implementation of the EU's Emissions Trading Scheme has injected a new dynamic into CDM activities. This was highly evident at an international workshop held in Mexico City in February, which was hosted by the German Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) in cooperation with the International Solar Energy Society (ISES) and the Comisión Nacional para el Ahorro de Energía (CONAE).

The workshop invited energy policymakers, researchers and energy companies from Central and Latin America to meet with decision-makers and experts to discuss opportunities under the Clean Development Mechanism (CDM) for the transfer of clean technologies like renewable energy sources and rational energy use, and to highlight the obstacles foreseen in implementing the CDM.

The workshop was also part of the German contribution to the CTI Programme of Work for the 2004 Climate Technology Initiative (CTI).

Over 100 participants from 13 Latin American states showed great interest in the subject and made it clear that they expect the CDM process to provide a strong incentive for new sustainability projects in the field of renewable energy sources.

Mexico's Deputy Minister for Policy and Planning, Dr. Fernando Tudela, emphasised the importance of the Kyoto Protocol (KP) and pointed out that the Mexican Congress had unanimously agreed to ratify the Protocol. The Minister also welcomed the EU's intention to implement the Kyoto Protocol even if the required majority is not achieved.

Wanted: Sustainable Energy Models

The guiding principle of sustainable development as outlined by Wolfgang Müller (Federal Ministry for the

Environment, Nature Conservation and Nuclear Safety) in an introductory presentation, and which German energy policy claims are based on, was well received by the Mexican delegates and workshop participants. Minister Tudela emphasised Mexico's particular interest in projects aimed at alleviating poverty: some 50 per cent of Mexicans live below the poverty line and around 5 per cent have no access to electricity.

The presentations and contributions made by the Mexican participants highlighted the various efforts already under way in Mexico to prepare for and implement CDM projects. A CDM office was established earlier this year and is jointly managed by the Energy Ministry (SENER) and the Environment Ministry (SEMARNAT). The division of responsibilities between the two ministries will be agreed on by April 2004 and afterwards all issues surrounding the CDM approval process will be dealt with.

A *Fondo Verde* (a green fund for renewable energy sources), tax deduction options and other incentives are to be introduced as drivers for the development and implementation of projects on renewable energy sources. The Mexican government has a special interest in biomass projects.

Euphoria and Scepticism

Despite the euphoric atmosphere, a number of concerns remain as to the penetrating power of the CDM concept: There exists no statutory regulation on remuneration for electricity fed into the grid, which would make investing in renewable energy sources commercially viable. Instead, the constitution contains a passage that obligates energy providers to use the most cost-effective sources of electricity. As regards the feed-in, the Mexican government is now attempting to improve the situation by drafting legislation which is supposed to remove the obstacles to the use of renewable energy sources.

Mexico's energy industry is subsidised by the state. This makes for low electricity prices and thus reduces the commercial viability of efficiency efforts. The subsidies also widen the gap between the costs of conventional electricity production and those of solar and wind-generated electricity.

During the workshop, it became clear that the CDM process will spark new incentives to implement sustainable energy policy. But this can only result in successful implementation if the framework set by energy politics is appropriate. The workshop also discussed the considerable transaction

costs involved in the CDM process. This is particularly problematic for smaller projects because projects with CO₂ savings of just a few thousand tons could possibly involve transaction costs that are higher than the additional revenue from the certificates obtained. It was thus suggested that ways should be sought as to how smaller projects can be bundled in order to save on transaction costs.

The CDM as funding instrument?

Another issue discussed at the workshop was how the CDM can contribute to project funding. The results of the discussion can be summarised as follows:

To begin with, it is impossible to predict the value of the certificates gained from CO₂ emission reductions. In the coming years, this will largely depend on the economic development in Europe and on EU energy and transport policy. These factors will drive the demand for fossil fuels, which in turn will determine the availability of certificates and certificate prices. Further down the line, the deciding factor will be the long-term CO₂ reduction targets agreed after the first commitment period of the Kyoto Protocol.

Another important aspect is the cost of investing in reduction activities relative to the quantities of CO₂ saved. While, for example, the investment costs for photovoltaic-generated electricity (as related to the kilowatt per hour yield) are extremely high, the CDM will play either no or only a subordinate role in financing this technology. The situation is different, however, in the case of wind energy and efficiency projects: with favourable conditions – excellent wind sites or efficiency activities which are viable by themselves – the CDM can strongly influence the commercial viability of a project and be a great incentive for the implementation of such projects.

Greater Cooperation for Sustainable Energy Policy

Many people at the workshop expressed interest in closer cooperation. The Mexican government intends to expand its renewable energy sources and speed up the CDM process. Held in the right place at the right time, the workshop thus provided the initial thrust for closer cooperation in this field. Like the other speakers at the workshop, the BMU believes that the impetus of the CDM should be used to underpin the drive for renewable energy projects. The case of Mexico in particular shows that the CDM is a powerful instrument with which to improve the country's energy industry through the integration of renewable energy sources.

This trend could benefit the German export initiative for renewable energy sources. In implementing CDM projects, it would thus be advantageous if successful, certified CDM projects were available for each type of technology. This would reduce uncertainties regarding the approach and the type of technology involved. Cooperation between companies who are prepared to take part in CDM projects could assist such efforts. Joint presentation of their projects could boost companies' images as regards their expertise and performance in implementing CDM projects.

Both the Mexican partners and other Latin American participants at the workshop were advised to draw up project lists outlining all the projects their countries wish to implement and which appear to be economically feasible. The list should indicate the current planning phase for each project.

By implementing these last two suggestions, both the communication effort and the costs involved in the search process could be reduced and result in faster project results.

Both participants and presenters declared the workshop a huge success. The presentations and discussions allowed the harmonisation of the very different levels of knowledge on the CDM process and the workings of emissions trading. The BMU sees the workshop as a successful start to long-term cooperation with Latin American countries.

Companies and funds that wish to use the CDM are advised to include Mexico in their list of suitable host countries. Firstly, there is huge potential for emission certificates that can be generated from projects carried out in Mexico till the end of the first KP commitment period in 2008/12. Secondly, a key factor is that Mexico will now decide on its yet-to-be established Designated National Authority (DNA) and national rules on implementing CDM projects. It was agreed to begin discussions on a German-Mexican Memorandum of Understanding in order to set a binding framework for CDM projects.



Büro Ö-quadrat

Büro Ö-quadrat (an agency for ecological and economic modelling) is owned and managed by engineer-economist Dieter Seifried. Ö-quadrat specialises in issues surrounding energy technology, the energy industry and the economy. In cooperation with the International Solar Energy Society (ISES) and the Federal

Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU), Dieter Seifried both developed the workshop and took part as a presenter.

Further information:

The workshop presentations are available for download at: www.ises.org/cdm-workshop

For more information on the Climate Technology Initiative, please visit www.fu-berlin.de/ffu/Projekte/pro_climate_technology.htm

JIKO News in Brief

Policy Paper on Supplementarity

The Wuppertal Institute recently issued its Policy Paper No. 1/2004 on the supplementarity requirement. The supplementarity requirement mandates that states may only cooperate with one another insofar as this is supplemental to national emissions reduction activities. The interpretation of this Kyoto Protocol requirement has been hotly debated, particularly as regards the negotiations on the directive linking the project-based mechanisms CDM and JI to the European Emissions Trading System. Thomas Langrock and Wolfgang Sterk, the paper's authors, look at the current status of EU emissions reductions in relation to the Kyoto targets, analyse the status of the debate on the amendment to the directive, and make recommendations how to implement the supplementarity requirement. The policy paper is available online at: <http://www.wupperinst.org/download/1078-supplementarity.pdf>

Flexible Mechanisms Brochure

The Federal Environment Ministry in cooperation with the Wuppertal Institute has published an information brochure on the flexible mechanisms of the Kyoto Protocol. The publication contains a general introduction to CDM and JI, outlines the required procedures for CDM/JI projects and illustrates them with selected examples. The brochure is available [in German] for download on the BMU web site at: http://www.bmu.de/de/800/js/download/b_broschuere_projektb_mech/

National Allocation Plan Online

The German Cabinet agreed the National Allocation Plan (NAP) for allocation of emission certificates on 31.03.04. The NAP sets out the total allowable quantities of CO₂ that may be emitted by the energy sector and by industry as a whole as well as the distribution of the emission certificates to the individual companies. The full text of the NAP is available [in German] at: <http://www.bmu.de/de/1024/js/sachthemen/emissionshandel/nap/>

Executive Board Accredits First CDM Designated Operational Entities

At its 13th meeting, the CDM Executive Board decided to accredit Det Norske Veritas Certification (DNVcert) and the Japan Quality Assurance Organisation (JQA) as the first project certifiers. As Designated Operational Entities (DOE) they assess whether projects comply with CDM provisions (validation). The DOEs are also responsible for verifying and certifying emissions reductions that result from CDM projects. The Executive Board's decision paves the way for the first CDM projects to be registered. Further outcomes of the 13th Meeting of the CDM Executive Board can be viewed at: <http://cdm.unfccc.int/EB/Meetings/>

JIKO Info

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