



Carbon Mitigation Highlights Newsletter

Carbon market news for the development community
GIZ Climate Protection Programme on behalf of BMZ

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Dear reader – Happy new year!

In this issue we want to digest the results of COP19, a COP that started with very low expectations. Unfortunately, Warsaw did not do much to address the pressing challenges of international climate policy; this includes hopes for breakthroughs regarding the new market mechanism. If 2014 is to be more

successful than 2013, governments need to show significantly higher ambition.

But not everything is bleak on the mitigation front: Positive signals come from an increasing number of CER procurement programmes and also REDD+, both setting the stage for results based finance of mitigation action. Down on the implementation level, market mechanisms, as an important instrument to include private sector participants into mitigation efforts, gain ground in many different regions. In China two further regional emissions trading schemes have started activities, and interesting developments on the voluntary market in the US happened. Clearly, leadership in climate policy is moving away from the EU and towards emerging economies. The Chinese year of the horse is a symbol for that shift – let us hope that the horse has stamina and finds the right route to bring us to Paris.

We wish you a pleasant 2014.

Daniel Blank, GIZ

Axel Michaelowa, Perspectives GmbH

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Number of the month

4: number of Chinese pilot emission trading schemes that started trading in Q4/2013.

Key Data: CDM as of 30-Jan

- Registered projects: 7,426
- Projects with issuance: 2,593
- Projects in validation: 1,293
- Registered PoAs: 243
- PoAs with issuance: 4
- PoAs in validation: 139
- Issued CERs (million): 1,488
- Host countries: 93
- CER spot price: 0.43 Euro

Key Data: Regional markets in DCs (as of 01-Nov)

- Mandatory emissions trading schemes in operation: 6 (5 China, 1 Kazakhstan)
- Domestic offset schemes in operation: 1 (China)
- Countries in implementation phase of PMR: 6
- Prices per tCO₂ in China:
 - Shanghai: 3 Euro
 - Tianjin: 3.3 Euro
 - Beijing: 6 Euro
 - Guangdong: 7 Euro (floor price)
 - Shenzhen: 8.8 Euro

Key data: NAMAs (as of Jan)

Outlook: The next issue of the newsletter will focus on the latest developments regarding the EU climate and energy policy 2030.

UNFCCC Carbon Markets

Regulation

COP 19 in Warsaw had the weakest results in many years with regards to market mechanisms. The COP had been tasked to develop rules for the New Market Mechanism (NMM) and Framework for Various Approaches (FVA). On both issues, it failed completely. Brazil's proposal to use CERs for emission commitments ("contributions") under the 2020 agreement fell through. Even very limited compromises like the setup of an information sharing platform for submissions on the elements and content of the FVA did not fly.

The scheduled review of the CDM rules was also essentially deferred; while the "classic" "guidance" decision tasks the CDM EB to:

- simplify and streamline the validation process for project activities and programmes of activities that are deemed to be automatically additional
- review the concept of materiality in the verification process
- develop guiding tools to assist Designated National Authorities that help monitoring the sustainable development benefits in its territory
- provide technical assistance to Designated National Authorities, upon their request, for the development of guidelines for local stakeholder consultation in their countries
- assess the validation of monitoring plans for small-scale and micro-scale project activities and programmes of activities before their first verifications
- analyse a revision of the thresholds for CPAs to qualify as micro-scale activities in PoAs
- work on the development of country-specific baseline and additionality thresholds for sectors in countries underrepresented in the CDM

A new UNFCCC portal on the state of negotiations on market and non-market based mechanisms is available at unfccc.int.

Market

- The Carbon Initiative for Development (Ci-Dev) has extended its current call for funding CDM project ideas to 28 February 2014. Ci-Dev plans purchasing CERs to support low-carbon investments with strong development benefits, and for enabling increased access to energy in low-income countries. Find the Ci-Dev project selection criteria and further information at www.ci-dev.org. The governments of the United Kingdom and Sweden and the Swiss Climate Cent Foundation have pledged more than 90 million Euro for Ci-Dev.
- The Swedish Energy Agency is seeking to buy 10 million CERs under the Swedish CDM Programme. Credits shall be valid for the Kyoto Protocol's second commitment period from 2013 to 2020, and will be purchased on a forward basis with payment-on-delivery terms. Priority project types include renewable energy, energy efficiency and waste management. Focus is on projects/programmes that have not yet been commissioned. Projects that are at risk of being discontinued are also of interest. Regions of particular interest are Sub-Saharan Africa and South East Asia. Click [here](#) for further details (call open until 16 February 2014).
- The NEFCO Norwegian Carbon Procurement Facility has closed its first call for proposals successfully, showing strong demand for the support of CDM projects. The Fund received 232 projects that fulfil the basic eligibility criteria, in total offering 211 million CERs (7 times the tender volume). CERs were offered for between 0.75 and 12 Euros each.

- NAMAs submitted to UNFCCC: 42
- of which in LDCs: 3
- NAMA support facilities: 7
- Supported NAMAs in implementation: 5

Web news

Resources

- A comprehensive overview of global GHG markets has been published by [IETA](#).
- The German Ministry of Environment has released a [MRV manual](#) for PoAs.
- A [report](#) by Nexus evaluates the DOE performance in small-scale household energy carbon activities such as water filter, cookstove and biodigester projects.
- During the Phase II of the EU ETS over 1 billion Kyoto credits (675 million CERs and 383 million ERUs) have been surrendered by installations – see a detailed [analysis](#) by CDC Climat.
- NGO Sandbag and Wuppertal Institute released a [report](#) on utilization of CDM and JI of German compliance buyers under the EU ETS.
- Carbon Market Watch has compiled CDM [case studies](#) with negative social impacts.
- The UNFCCC released a reference [manual](#) for CDM forestry activities.
- UNDP published a [Guidance Note](#) for Standardized Baselines.
- Korean Think Tank KEMCO discusses design options for [NAMA crediting](#).
- [Sweden](#) discusses experiences of PoAs as a way to scale up mitigation action.
- Sandbag evaluates the first year of the EU ETS incorporating [aviation](#).
- A COP 19 side event on result-based finance and innovative use of flexible mechanisms featured presentations by the [World Bank](#), [UK](#) and Sweden ([Ci-Dev](#)).
- Numerous Reviews of COP 19 have been released, amongst

them [IISD](#), [CDC Climat](#), [Carbon Market Watch](#), [Germanwatch](#), and [IETA](#).

Regional carbon markets

- **China:** Four Chinese trading schemes went online in December 2013, so that now five emissions trading schemes are being operated in China –the systems in Shanghai, Beijing, Tianjin, Shenzhen and Guangdong Province.
 - Shanghai's scheme covers 191 big energy users covering the sectors electricity generation, iron and steel, manufacturing, airlines, harbours and commercial buildings. The scheme allows for domestic offsetting.
 - Beijing's trading scheme covers 435 companies.
 - In Tianjin 114 companies from the power, iron and steel, chemical, petrochemical, and oil and gas extraction industries are included under the scheme.
 - The largest of the new schemes is that of Guangdong province, which covers 242 entities in power, cement, iron and steel sector. Domestic offsetting is eligible for up to 10% (of which 70% must be originated in Guangdong). In a first carbon auction 28 companies were buying 3 million allowances for 7 Euro each, which is the floor price of the scheme. Furthermore, 120,000 allowances were traded at slightly higher prices. The Guangdong regulators put political pressure on market actors by indicating that if the floor price will not be met in auctions, no free allocation of allowances would be provided.

All schemes still lack clarity regarding key elements such as initial allocation of allowances, reporting requirements and enforcement of penalties. Thus liquidity remains low and price volatility high.

- **China:** The scope of project types for domestic offsetting through Chinese CERs (CCERs) in China (projects can include CDM projects but also go beyond) comprises 120 types of technologies, including adipic acid N₂O destruction projects. So far two CCER trades have been reported, with state-owned PetroChina buying 10,000 credits for 1.9 and 2.4 Euro each. According to rumours, buyers seek to pay between 0.5 and 3.5 Euro per CCER.
- **Kazakhstan:** The government is five months behind in auctioning allowances to compliance buyers under the Kazakh ETS. Thus, it is becoming unlikely that the government will enforce the surrender of allowances at the end of the current one year pilot phase – which keeps the Kazakh ETS being a paper tiger, thus far.
- **Australia:** The new Australian Government intends to scrap the existing carbon tax and the federal ETS for post-2015, and replace it with a large scale carbon offset credit procurement programme. The so-called „Emissions Reduction Fund“ – which is outlined in a recent [green paper](#) – would purchase domestic offset credits, and might be opened for international credits as well. Baseline methodologies shall build upon the existing domestic offset programme, the Australian Carbon Farming Initiative, but may also be adapted from the CDM or other schemes. While still shaping the design of the programme, the government envisages the fund to start by 1 July 2014.
- **North America:** The regulators of the US' Regional Greenhouse Gas Initiative (RGGI) announced a 45% cut to the emissions cap from February onwards. This measure is meant to address constant oversupply. From 2015 – 2020 the cap shall decline 2.5% per year.
- **Korea:** The Korea Exchange (KRX) will host trading under South Korea's emissions trading scheme, which is supposed to become the world's second biggest ETS after its launch in January 2015.

Events

- The International Carbon Action Partnership (ICAP) will convene the 2014 ICAP Training Course on Emissions Trading for Emerging Economies and Developing Countries in Santiago, Chile, from 5 to 14 May 2014. [Apply](#) by 17 February.
- The Gold Standard Foundation is holding a workshop on the future of results based finance from 10 – 11 March 2014 in Zurich. [Click](#) for further details.
- A World Bank [webinar](#) on “Lowering Cities’ GHG Emissions: examining the role of market-based options” will be held on 19 February from 8:30 am EST.

Main Acronyms

CDM: Clean Development Mechanism (Kyoto mechanism)
 CER: Certified Emission Reduction (CDM certificate)
 GHG: Greenhouse Gas
 (L)DC: (Least) Developing Country
 MRV: Measurement, Reporting, and Verification
 NAMA: Nationally Appropriate Mitigation Action
 PMR: Partnership for Market Readiness (World Bank)
 UNFCCC: United Nations Framework Convention on Climate Change
 PoA: Programme of Activities (CDM type of activity)

Voluntary markets

- Prices for Gold Standard VERs range from 1.75 Euro (standard) to 4.5 Euro (premium).
- For the Verified Carbon Standard (VCS) it has been announced that new methodologies and projects relating to HFC-23 will no longer be approved or accepted for consideration, quoting bilateral discussions to reduce this gas and arguing that HFC-23 is likely to be regulated under the Montreal Protocol.
- Despite the dire realities in US climate policy, corporate action against climate change is picking up. 29 large US companies apply internal carbon prices to drive investment decisions. They use it as a size for profitability calculations or for investments in offsets. According to a [report](#) of the Carbon Disclosure Project's (CDP), ExxonMobil calculates with 43 Euro per tonne, BP applies 29 Euro and Google 10 Euro (based on the auction price of the California carbon market). Beyond business decisions, some companies collect carbon fees from their business units and then invest the collected money in net emissions reductions or carbon offset projects. Microsoft, for example, has collected a fee between 4-5 Euro from its units and invested in more than 20 carbon projects in a dozen countries.
- The first credits were issued under the World Bank's BioCarbon Fund sustainable agricultural land management (SALM) methodology in the Kenya Agricultural Carbon Project (KACP). The VCS issued 25,000 VERs in January, which shall enable for up to 60,000 smallholder farmers in western Kenya to apply improved agricultural land management practices. Part of the VCS credits will be purchased by the BioCarbon Fund.

Other mitigation activities in Developing Countries

Activities

- The Anglo-German NAMA-facility announced a second call for projects to be published in mid-2014. In total, additional funds of 50 million Euro will be available to fund implementation of NAMAs.
- Two EU driven NAMA support vehicles are the [Latin American Investment Facility](#) (implementation of NAMAs in Latin America), and the [Neighbourhood Investment Facility](#) (preparation of NAMAs in Eastern Europe and MENA region).
- The Danish government has established a climate investment fund to promote climate investments in developing countries and emerging markets - the Danish Climate Investment Fund. It strives to blend state funds and private pension investments and so far has received pledges worth 160 million Euro – quantifiable mitigation components in these investments remain to be seen.
- The UN Agencies UNDP, UNFCCC and UNEP have launched a "Guidance for Nationally Appropriate Mitigation Actions (NAMA) Design: Building on country experiences." The document was developed by Perspectives and UNEP Risoe Center, and aims to support developing countries in developing and implementing NAMAs through providing guidance and best practice examples on key aspects of NAMAs, including financing, institutional arrangements and roles of different actors, MRV, policy frameworks and potential actions – available at

lowemissiondevelopment.org.

- An interesting example for NAMA application in Northern Africa is Tunisia where several relevant activities are being implemented. The COP 19 side event “Tunisia - A front-runner in NAMAs development” discussed the topics [NAMAs in the Tunisian energy sector](#), [Support for an integrated NAMA strategy in Tunisia](#), and [Tunisian competitiveness in the race for international NAMA financing](#).

Policy

- At COP19, Parties decided on the composition of the team of technical experts (TTE) that will conduct the technical analysis of Biennial Update Reports, to be submitted by Non-Annex I Parties from December 2014. The TTE will be composed of experts nominated to the UNFCCC roster of experts and should, overall, ensure a geographical balance and that the majority of experts come from non-Annex-I-Parties.
- The voluntary MRV guidelines for unilateral NAMAs as concluded at the COP in Warsaw remained unspecific and international assessment is not foreseen. This will make it more difficult for the international community to assess the mitigation effect of such NAMAs.
- After COP 19, REDD+ is now ready for “results-based finance” and may also become a model for MRV of supported NAMAs. National entities are to be determined who administer the REDD+ activities and a national MRV system. A technical annex of the Biennial Update Reports of countries engaging in REDD+ will provide detailed information on REDD+ activities. Proposed baselines (“reference levels”) will be assessed by a technical team of two LULUCF experts, one from a developing and one from an industrialized country. This review can lead to a modification of the baseline. An information hub on the UNFCCC website will publish information on results from REDD+ activities and corresponding results-based payments. An “Initiative for Sustainable Forest Landscapes” proposed by the BioCarbon Fund received pledges of 207 million Euro from Norway, the UK and the US. This was the largest amount of new climate finance announced in Warsaw.
- Related to this stands a comparison of the NAMA and the REDD+ approach done within a study by [Climate Focus](#).

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Focus theme: International climate policy after COP19 – (re)building trust between South and North

COP 19 was never meant to achieve much due to its timing in the run-up to 2015 and the reactionary climate policy stance of its host. But it almost failed to live up to even these subdued expectations. The dismissal of the environment minister by the Polish Prime Minister during the second week of the COP – he continued to preside COP as “lame duck” - surpassed the worst fears. Japan and Australia openly defied the COP by using it as a platform for severe downscaling of mitigation ambition. Industrialized countries were unwilling to increase public climate finance means except a few dozen million Euro for the Adaptation Fund and 200 million for REDD+ funds. This contributed to a sharpening of the divide between developing and industrialized countries. The former thus took the market mechanisms negotiations hostage. The only ray of hope for the mechanisms from COP 19 is the call for cancellation of CERs to increase pre-2020 mitigation ambition. Regarding the envisaged pledges from all Parties to the 2015 agreement, a balanced process of bottom-up (i.e., by Parties) mitigation pledges and international review before the 2015 agreement to assess its convergence

with the 2°C target is needed. The pledges (now called “contributions” instead of commitments, maybe intended to allow reluctant developing countries an escape route via isolated “actions”) are only due in early 2015, with information requirements for the submitted contributions to be defined by COP 20 in December 2014. These information requirements will be key to the calculation of the mitigation gap between the sum of contributions and the emissions level that are required to remain on track towards the 2°C target. Such a calculation has already been done by UNEP in their emissions gap report based on current pledges.

In order to prevent this process from being poisoned by acrimony between developing and industrialized countries, real engagement by heads of state at the September summit at the UN headquarter is required. A ratcheting up of ambition instead of a ratcheting down is required. In this context, developing countries should be enabled to quantify and assess mitigation potentials in broad interaction with domestic stakeholders and be advised on enabling structures. Here, development cooperation can play a key role, and build on experiences, for example in support of NAMA conceptualization or definition of green growth plans as well as low emission development strategies.

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Presentation of carbon market actor: atmosfair gGmbH

The German non-profit company [atmosfair](#) provides high quality carbon offsets for air travel, exclusively based on CDM Gold Standard. By developing and implementing its own [offset projects](#), atmosfair has become a pioneer for the development of decentralized energy efficiency CDM projects and PoAs, with a focus on Africa. Atmosfair also supports other CDM and Gold Standard certified projects by offering fixed price offtake agreements. The first cook stove project under CDM and the first cook stove PoA in Africa were registered by atmosfair and have received multiple issuances of CERs by now. The PoAs are open to any type of cook stoves and to any developer in Africa who wants to benefit from carbon finance. Recently atmosfair has started [cooperation with UNHCR](#) to combine humanitarian aid for refugees with carbon finance. atmosfair also offers scalable project solutions for investors (for example: DHL funded [cook stove project in Lesotho](#)) and is constantly looking for co-finance for up scaling. Atmosfair also develops decentralized household size [biogas](#) projects and is piloting biomass-gasification-for-electricity technologies and the use of absorption chillers as a replacement of electricity powered air conditioners in the hotel sector. This year the atmosfair project portfolio will issue 300,000 CERs and further growth is expected. To learn more get in touch with Mr. Xaver Kitzinger (kitzinger@atmosfair.de).

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