

## Editorial

Dear Readers,

this is the first edition of JIKO Info in its new format. Since the German Environment Ministry launched its JIKO website ([www.jiko-bmu.de](http://www.jiko-bmu.de)), reporting on CDM/JI-related news items has tended more and more towards online publication. This has led us to change the JIKO Info newsletter format. It now contains more analysis and background articles on specific issues, and there are fewer 'latest news' items. So in the lead up to the first Kyoto Protocol commitment period and ahead of the second trading period under the EU Emissions Trading Scheme, this first edition draws conclusions on the Kyoto mechanisms market. It contains articles by and interviews with representatives from the KfW Carbon Fund and TÜV Süd, an accredited CDM DOE, who describe and analyse CDM/JI activities from their respective standpoints. We also provide our own analysis of carbon market trends, looked at for the most part from a German perspective. The newsletter is rounded off by two short reports: one on the amendment to Germany's ProMechG legislation and the other on German-Peruvian cooperation under the CDM.

On behalf of the Editors, I'd like to wish you an interesting read.

Christof Arens

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## JIKO Analysis

### The International Carbon Market and the CDM: Current Status and Future Trends

**The Clean Development Mechanism is by far the carbon trading market's most important 'real asset'. This is partly due to the fact that government-level emissions trading (AAUs under the Kyoto Protocol) has not yet started and will probably not be up and running before 2012. Another reason is that to a great extent, business-level emissions trading focuses on CDM and JI, the Kyoto Protocol's project-based mechanisms. The CDM is by far the more dominant of the two. The following article looks at CDM trends and outlines the mechanism's developmental potential.**

When – largely at the initiative of the US – the flexible mechanisms were adopted under the Kyoto Protocol, no-one knew what direction they would take. The CDM and JI were initially seen as funding instruments for government-level cooperation activities. A suitable model, the Global Environment Facility (GEF), had been in existence since 1991. That the CDM instead became the basis for today's primarily private industry-level carbon emissions trading stems for the most part from policy incentives that were introduced at a very early stage. In the start-up phase, the World Bank's Prototype Carbon Fund (PCF) set the scene and has shaped the carbon markets ever since.

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## JIKO Interview

### "All too often, project developers see DOEs as service providers"

**Werner Betzenbichler, Chair of the DOE/AE Coordination Forum talks to JIKO Info**

**JIKO Info:** Mr. Betzenbichler, you are the Chair of the DOE/AE Coordination Forum, the association of the entities that review CDM projects on behalf of the UNFCCC. Initially, there was harsh criticism that there were too few projects and the CDM process was too complicated. In the meantime, many have come to see the CDM's vastly growing pipeline as a great success. In your capacity as a DOE, how do you view the CDM's progress to date?

**Werner Betzenbichler:** *While no-one can deny the success achieved in implementing the CDM, there will always be some who claim it is either too slow or is progressing too fast. On the whole, I think the outcome is balanced, although I still find the 'annual fluctuation' arising from changes in the Executive Board's line up, policy preferences and technical focus something of an obstacle. The greater the scope of the growing regulatory framework based on EB and COP/MOP decisions, the less vulnerable it will be to such influence.*

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## JIKO Analysis

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**Dr. Klaus Oppermann**

joined KfW's Department of Economics in 2000 where he worked on renewable energy and emissions trading issues. In 2004, he was seconded to the World Bank's Carbon Finance Business Unit for a three-year term as a CDM methodology specialist and deal manager. He currently holds the position of Prokurist at the KfW Carbon Fund.

Today (as of August 2007) there are more than 2,400 projects in the CDM process. These could achieve savings of around 400 million t CO<sub>2</sub> annually (2.2 t billion by 2012) for JI, the figure is just under 200 projects, involving 0.2 billion t by 2012. The CDM has so far produced over 1,400 renewable energy projects (of which a third are already registered). It has also enabled large-scale, particularly low-cost landfill and industrial gas projects. This use of different project types is one of the CDM's strengths, especially if we are to take on board the key findings of the Stern Report which concludes that climate change mitigation is reliant on the market entry of low-emissions technology and full use of the potential offered by less-costly emissions reduction activities.

That the CDM results in the transfer of significant funds to developing countries is an integral component of the mechanism itself. A recent UNFCCC study on the investment and financial flows relevant to the development of an effective and appropriate international response to climate change estimates the annual revenue from CDM projects registered in 2006 at € 1 billion. Based on this estimate, the current CDM pipeline could generate payment flows to developing countries of up to € 4.5 billion a year. Added to this come the financial flows from project-related investments. The investment volume for projects registered in 2006 amounted to some € 5 million, a portion of which represents capital imports in developing countries.

This corresponds with the market logic that projects with especially low CO<sub>2</sub> reduction costs can achieve additional revenue. The amount achieved depends on the prices attained in the market. Current price levels would be considerably lower, however, if it were not for the project-side scarcity caused by the imperfections of the carbon markets themselves – it goes without saying that the uncertainties regarding continuation of the project-based mechanisms beyond 2012 act as a barrier to investment. Then there are the restrictions and bottlenecks that arise from current CDM rules, not to mention the conceptual limitations of the CDM mechanism overall. One example of the former is the recognition process for new CDM methodologies: it gives private methodology developers no adequate incentives to develop methodologies for broad-based

application and suffers from long processing times of up to two years or more. Conceptual limitations arise from the CDM's focus on single projects and the exclusion of entire project types such as avoided deforestation.

Economic incentives can make a key contribution towards remedying market imperfections and supply-side scarcity. A number of instruments are already available and are being put to good use in various carbon funds. Examples include advance payment facilities for certificate deliveries and support for project developers, both of which are components of the new EIB-KfW Carbon Programme (see box).

### The EIB-KfW Carbon Programme

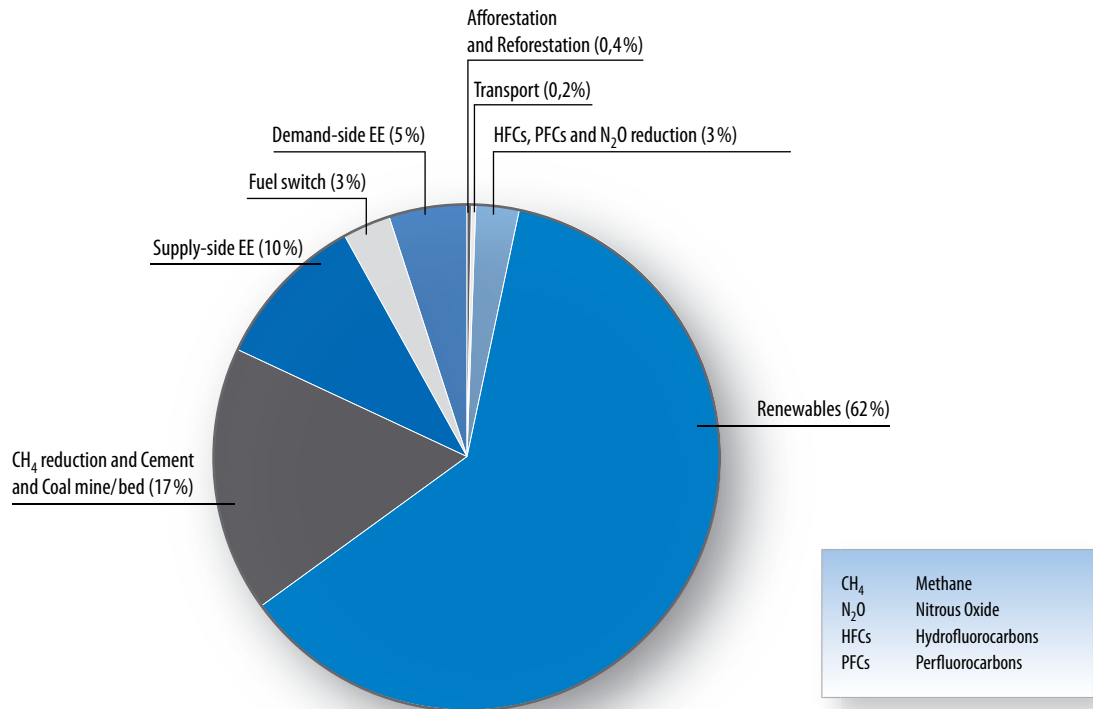
The KfW Bankengruppe (KfW) and the European Investment Bank (EIB) have launched a joint carbon credit acquisition programme. With a target volume of € 100 million, the programme is designed to assist businesses in the purchase of CERs and ERUs approved for use under the EU Emissions Trading Scheme. Credits from industrial gas projects are excluded. The programme especially targets small and medium-sized enterprises and allows carbon credit purchases with a minimum investment of € 500,000. Lower amounts are possible through intermediaries participating in the programme. There is also a guaranteed delivery option. On the project side, eligible sellers may receive advance payments against the contract value. As a general rule, projects should supply a minimum of 150,000 tCO<sub>2</sub>e by 2012. The programme is open both to carbon buyers and sellers.

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When it comes to regulating the carbon market, one approach is to give thought to ways of structuring the project-based mechanisms in future. Regulation has an institutional and a substantive dimension. If the long-term focus of 'carbon currency' regulation follows developments seen in regulating monetary currency

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Project type breakdown of the current CDM project pipeline

Source: UNEP Risoe 2007, as of October 1, 2007

systems in industrial countries, then the institutional trend would take the professionalisation and policy-independent route. But this would still leave the key substantive issues unaddressed: especially as regards advancements in additionality requirements, baseline setting and leakage issues.

There are two basic options: either the current trend towards methodological focus at case level could continue (project additionality, baseline setting using analysis of specific investment options and motives, extending the leakage concept) or efforts can be made towards greater standardisation and effecting a switch to a sectoral approach. Decisions on a possible shift of this kind would be fostered by experience gathered with the growing portfolio of CDM projects. Then again, it is this growing portfolio that boosts the artificial nature of a baseline over time. This comes immediately to light when looking, for example, at the relevant emission coefficients for an electricity grid that for the most part has already been decarbonised using CDM projects. Finally, by expanding the scope of the CDM, an increasing number of policy incentives offered in CDM countries would need to be considered when setting baselines and conducting additionality assessments. A prime example would be delaying the introduction of specific environmental

standards to avoid the additionality aspect of CDM projects in the respective sector being called into question or to prevent a less emissions-intensive and thus less advantageous baseline for the projects involved. To a certain extent, incentives of this kind are already reflected in the CDM rules. Taken as a whole, these factors point more to a shift towards standardisation of and a sectoral approach to CDM methodology and process development.

There is also the question as to how the project-based mechanisms can be advanced in their own right. One key form of advancement has already come with Programmatic CDM. Calls for energy efficiency on the demand side and for more general measures in households, the transportation sector and in SMEs can really only be answered under the CDM if they are part of a promotional campaign or are required under a statutory implementation programme. Small-scale and micro-scale projects cannot afford the transactions costs involved in emissions reduction certification. The CDM has been significantly advanced in these areas without straying from the original logic of a project-based mechanism operated below the level of policymaking. Whether or not the new approach can have any major impact during the Kyoto commitment period up to 2012 is difficult to say.

## JIKO Analysis

Aside from all this, there is the debate regarding the extent to which sectoral or policy-based certification mechanisms could be made integral components of a post-2012 regime. This involves far more than advancing the project-based mechanisms per se. Rather, it is about adopting an instrument of a different quality and with far greater carbon saving potential. A quantifiable emissions reduction target either at sectoral level or combined with appropriate legislation (policy-based) would, together with the necessary government-level cooperation, take us right back to the start of the debate.

Sectoral or policy-based certification shifts the questions of baseline setting and proof of additionality to the policymaking level. Trying to attain emissions reduction targets at an intermediary level — below the level of national targets but above that of a single project or programme — would be methodologically difficult if the sector involved were finely meshed with other sectors. This would apply in the majority of cases. Clarity would also be needed as to how to differentiate between project or programme-based

certification and sectoral or policy-based certification. The easiest approach would be to introduce sectoral or policy-based certification mechanisms in a sector where project-based mechanisms have not yet been used, that can be seen in isolation and is thus suited to sectoral target setting. Avoided deforestation would lend itself to such an approach.

The route the project-based mechanisms will actually take remains to be seen. The logic and the dynamics of the global carbon market point to professionalised regulation and standardised methodologies. The vast potential harboured in low-cost climate change mitigation projects that focus on energy efficiency and forest management can help promote both programmatic and possibly even sectoral and policy-based approaches and encourage efforts by governments in developing and threshold countries to step up use of renewable energy. In the end, the route the project-based mechanisms take will depend on the prevailing international climate policy framework.

**Dr. Klaus Oppermann**

### JIKO Info Special on the Bali Conference

The next issue of JIKO Info will focus on the UN climate summit in Bali. It is going to look at the CDM agenda of the conference and take an outlook onto the possible role of the mechanisms in a Future climate regime. Further articles will focus on the rules of the World Commission on Dams, which have been operationalised for the Kyoto markets by the German authorities, and on an unilateral regional JI project.

The issue will be published shortly before the summit and will be delivered via e-mail as usual.

## JIKO Interview

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Physicist

**Werner Betzenbichler**

originally worked in air quality management. When TÜV Süd set up its own carbon trading division, he joined the management team. He is currently Head of Carbon Management Services and is responsible for TÜV Süd's service portfolio as a certification company.

**JIKO Info:** The DOEs are often described as the long arm of the EB. Do you see any discrepancy between the policy structuring process within the EB and everyday work with CDM projects?

**Werner Betzenbichler:** *The discrepancy lies not in transposing the decisions into everyday project work, but in project developers' perceptions and attitudes. Many still assume that as DOE clients, they have entered into a normal service agreement in which the client has the last say on how to proceed. An understanding of the independent nature of expert reviewers, such as that which prevails here in Germany, has not yet taken hold in some countries. As a DOE you firstly have to assert yourself in this regard. The independence principle and observance of it should, however, be a given in all accredited organisations.*

**Do the DOEs feel that their consultation and involvement options within the CDM process are adequate and that their needs are properly taken into account? Do you have any suggestions on how to improve communication?**

*I believe that the consultation process has improved considerably in recent years, both since the DOE/AE Forum was included in EB meetings and on account of the exchange that has taken place between the meetings. There are few changes to the accreditation process or to project registration requirements that now catch us unawares or on which we have not had a say already. Improvements are needed when it comes to all the DOEs and AEs participating in the communication process because too few new applicants and companies with small market shares get involved.*

**Some 18 DOEs are now accredited and more are to follow. How do you ensure that the work done by all the DOEs is of the same standard and that new DOEs in particular do not have to learn from the beginning?**

*You have touched on a problem that was one of the key reasons for launching the DOE/AE Forum at the end of 2004. It is also in market leaders' interests if the work of all DOEs is not subject to constant criticism from the outside. Plus, fair competition is only possible if everyone provides the same level of performance in the same type of work. Quality should not fall victim to price cutting tactics. Work is currently underway on a new validation and verification manual (the VV Manual) which all DOEs will then have to use in*

*their everyday reviews. This common approach will be underpinned by binding participation in joint workshops. Up to now, neither the EB nor the Accreditation Panel has prescribed participation in such activities.*

**Many critics claim that a large number of non-additional projects are being validated and that this is provided for de facto by the basic structure of the validation process in that the reviewees pay the reviewers. In almost every meeting, the EB calls for the work done by the DOEs to be improved and it now subjects far more projects to review. How would you respond to such accusations?**

*I cannot accept the claim that many questionable projects are being unjustifiably registered due to poor validation reviews. I compare our work with that of a tax assessor dealing with a tax return. Can the assessor be held responsible for loopholes and weaknesses in taxation law which taxpayers and their accountants interpret to their advantage? The situation is similar in implementing the CDM. Project participants always interpret the existing methodologies and rules towards profit maximisation. We even see this with the environmental organisations who submit projects. As the DOE, our options here are rather limited. And if we look at the number of projects refused by the EB on grounds of additionality problems, it is negligible compared with the number of registrations. The problem is not about the contractual relationship. The high number of reviews is partly to do with the call for more transparency in PDDs and validation reports. Speaking for TÜV Süd, I can only welcome this requirement because it makes for easier comparison of the work involved in the projects. Then again, the DOEs often criticise the quality of the work performed by the Review and Issuance Team (RIT) because they lack the necessary expertise or appear to be biased towards certain project types.*

**What steps should be taken to alleviate doubts on the environmental integrity of the CDM?**

*The issue of environmental integrity is by no means a yes or no question. It largely depends on personal standpoints and perspectives. Even the climate change aspect will compete with other environmental issues from time to time. Take the growing debate on palm oil plantations and biofuels. The expectations of some interest groups, that the CDM will provide ideal solu-*

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Small scale projects often have significant social benefits, but suffer from high CDM-specific transaction costs. The picture shows the CDM-solar cooker project in Aceh/Indonesia, which is being carried out with German participation.  
Source: Klaus Trifellner

tions right from the start, will probably result in disappointment. But there are already many arenas in which environmental integrity is not questioned and promising debates are emerging on new approaches that will offer acceptable solutions. We are already on the right track with the approaches mentioned earlier on standardising the quality of work done by the DOEs.

**Another criticism of the CDM is the lack of geographical balance. How do you feel about this and what do you think can be done to achieve a more even spread?**

*Without doubt, there are some countries that could be described as the dominant CDM host countries. This is due to many different factors such as the investment climate, emissions reduction potential, approval requirements and political stability. If changes are to be made, they can only be initiated on the policy side. Quotas or similar arrangements will, I believe, meet with strong resistance.*

**For the period post-2012, there are calls for the CDM to be expanded to take in sectoral or policy-based approaches. Wouldn't these make it more difficult than ever to calculate and verify the emissions reductions involved?**

*It is certainly right to discuss these approaches and, as you imply with your question, the main debate will focus on a suitable monitoring system. Possible solutions could involve ensuring*

*that a conservative value is put on the carbon reductions attained. Things should not centre on the actual amount but on ensuring that the final outcome is more than has been calculated. But then there is the question of whether a conservative approach would provide an economic incentive. This is best answered jointly by talking to potential investors and policymakers in order to avoid creating a set of rules that will go unused.*

**Which key issues and challenges for the CDM in general and for DOEs in particular do you see in the near future?**

*I'm looking forward to seeing the first activities implemented under the Programme of Activity scheme. This is another area where things will be less than perfect at the beginning. For the CDM, the post-Kyoto debate will automatically give rise to the question of what will happen in the countries that accept the future emissions targets, especially as to how they might affect projects that have already been registered. For us DOEs, the main task will be to leave as little room as possible for our work to be criticised. This fits in nicely with current efforts towards establishing quality standards. One of the approaches I favour is to list in a similar way to ISO 9000 and ISO 14000 the minimum effort required in man days relative to the methodologies and project locations.*

**The interview was conducted by Wolfgang Sterk and Renate Duckat**

## JIKO Analysis

Interim Report at the Start of the Kyoto Protocol's First Commitment Period

### German Businesses Show Growing Interest in CDM/JI

**Prior to the launch of the EU Emissions Trading Scheme (ETS), the flexible mechanisms of the Kyoto Protocol received little recognition from German industry. Germany's Kyoto target of 21 percent during the period 2008-2012 compared with the base year 1990 seemed achievable with national climate change policy alone. Once the ETS was underway, the 'vent' function of the CDM and JI mechanisms became more apparent due to the high emission reduction costs incurred by domestic businesses. The German government promised industry that use of CDM and JI would be simplified. Since the elections in 2005, the new government has made a number of decisions in this direction. For example, it has simplified the legal framework and reduced project approval charges (see 'Amendment to the ProMechG Provides Greater Incentives for Climate Change Mitigation at Home and Abroad', elsewhere in this issue). The German Environment Ministry's CDM/JI Initiative has improved the conditions for cooperation and restrictions have been lifted on using credits from CDM and JI projects towards compliance in the EU Emissions Trading Scheme. This article looks at German participation in the CDM and JI since the ETS was introduced almost three years ago.**

At the start of the EU Emissions Trading Scheme, the German government had set the use of allowances at around 40 million credits per year. Given the dynamic growth of the carbon markets, the government has since come a long way towards meeting industry demands to fully exploit the national limits on surrendering credits generated from the flexible mechanisms of the Kyoto Protocol: Germany's Allocations Act 2007 allows businesses to surrender 22 percent of their CERs and ERUs to meet their ETS targets. This represents an annual emissions volume of approximately 90 million t CO<sub>2</sub>eq – or, put differently, a single annual emissions budget for the emissions

trading sector during the ETS trading period 2008-2012.

In the lead up to the Kyoto Protocol's first commitment period, German participation in CDM and JI projects looks something like this: according to statistics published by the UNFCCC and UNEP-RISOE, initial progress has been made in the CDM. While at the end of 2006, Germany had one percent of registered projects and came under the 'others' category, it now has 3.5 percent of the 803 CDM projects that have been registered in total. The RISOE Pipeline shows increasing activity by German business. Of the 79 projects listed, a large number can be apportioned to the three most active players: RWE (37), KfW (16) and N. Serve Environmental Services (8). Of more importance is the fact that as many as 13 of the 201 buyers of carbon credits (6.5 percent) are from Germany.

The situation as regards Joint Implementation is less impressive. The RISOE Pipeline contains only two projects involving German buyers and another three in which Germany is the host country. A glance at the proposal statistics published by the German Emissions Trading Authority (DEHSt), which approves CDM/JI projects and regularly publishes the latest figures, confirms the extent of German participation: with 63 proposals, only the statistics on JI projects conducted in Germany indicate any great activity. Comparing the figures with those of other countries highlights the low level of participation by German business: compared with Germany, the smaller EU member states in particular participate in a similar or slightly higher number of projects. Great Britain, the Netherlands and Switzerland all participate in a significantly greater number.

It is, of course, possible to question whether it is right to view this as a deficit at all. It is less so if we remember that German business has had little incentive as regards CDM/JI project development. Plus, the successes of the other countries are due to the activities of individual, larger participants like Ecosecurities and EDF Trading in Great Britain, and also to state-run carbon acquisition programmes designed to ensure compliance with Kyoto commitments.

Given Germany's foreign trade relations, the number of projects involving German busi-

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nesses should already be significantly higher. It can only be assumed that opportunities for CDM/JI activity are being overlooked or underestimated. If this is the case, then the availability of information on the CDM and JI mechanisms must be improved, as should preparation of project options by CDM/JI specialists.



Renewable energy projects account for the biggest share of CDM/JI-projects, among them wind power projects.

German business largely comprises small and medium-sized enterprise and many businesses find it difficult to marry the complexity of the Kyoto mechanisms with their activities. This calls for similar action to that mentioned in the previous paragraph, although the question arises as to whether intermediary organisations or businesses could take on a consultancy and service provider function. Some kind of CDM/JI trading office could provide an expert link between the often inadequately developed project proposals in the host countries and businesses in Germany.

A good share (58 percent) of Germany's foreign trade is conducted in the EU's Single Market, which brings up the problem of extremely limited project opportunities in Western Europe and of double-counting (Kyoto projects that are directly or indirectly connected to facilities already covered by the EU Emissions Trading Scheme). Adding trade with the US, Canada and Japan, the share of foreign trade with countries that are unlikely or only marginally suited as CDM/JI countries rises to 68 percent. The extent to which German business can participate in projects thus begins from the significantly lower base of foreign trade activities. No analysis has yet been done from this perspective, or comparing with the situation in other Annex I states.

Looking at Green Investment Schemes (GIS), the EU member states in Eastern Europe could become significantly more attractive. The opportunities for German business would not, however, be provided for in the national framework as long as Germany fails to buy government-level emissions allowances and project-related government-level emissions allowances are not eligible for use under the EU Emissions Trade Scheme. This problem becomes urgent if GIS schemes are set up in Central and Eastern European countries. Businesses must clearly state the extent of their interest in this instrument.

The market for suitable CDM/JI projects has always been seen as narrow due to the globally high demand for projects and credits. The current downward trend in registration of CDM projects points to saturation of the carbon allowances market during the first Kyoto commitment period. Given the available funding volume and the market outlook beyond 2012, it can be assumed that the easier-to-develop projects have already been exhausted. Development of more suitable projects must be stepped up.

This could lead to a shift in the market: more intensive project activity from Annex I states might be necessary to secure continuity in the project pipeline. Key factors in this regard include exploiting available potential, advancements in technology transfer and the use of programmatic approaches in the CDM (programmes of activities could be the first step in this direction). Also, it remains to be seen how the JI markets will develop with regard to the eligibility of participating Annex I states next year. The expectation that project opportunities will arise in Eastern Europe from the use of the simplified JI First Track process could become a temporary burden on the CDM market. But in this segment, too, the simple and promising project opportunities are quickly snapped up and the market between CDM and JI will level out. Ongoing competition between improved project approaches, GIS schemes and Programmatic CDM is possible in theory. While GIS schemes come under the sovereign jurisdiction of the Annex I states, developing countries are reliant on decisions made under the UN framework. This asymmetry of opportunities could make a new international framework neces-

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sary even during the first Kyoto commitment period.

The complexity of market demands plays only a subordinate role in future participation by German businesses. They can often benefit from their exemplary technologies and services, and establish themselves as reliable partners in developing sustainable project solutions. However, they must also become partners in localised project solutions in the host countries themselves. The role of supplier is generally not enough. First and foremost, these businesses need support and services in areas that do not belong to their particular field. This could come in the form of the intermediaries mentioned earlier: the German chambers of commerce overseas, the German Energy Agen-

cy (dena) and the German Office for Foreign Trade. The role of German consultants should not be underestimated as some of them possess excellent connections in the carbon trading markets. The role of financiers in producing project proposals should be enhanced so as to bring technology providers, project developers and investors together to form consortiums.

Against this backdrop, a range of issues and potential approaches come to light which are all ideally suited to the German Environment Ministry's CDM/JI Initiative, but they can only be developed and achieve the desired results in close cooperation with businesses and other participants in the carbon markets.

TF

## JIKO News CDM-Initiative

### Progress in German-Peruvian Cooperation

**Immediately before the Latin America Carbon Forum, the first joint meeting under the Memorandum of Understanding between the German Environment Ministry and Peruvian partners was held on 3 - 4 September in Lima.**

Along with representatives from the German Environment Ministry, the German delegation comprised the KfW Carbon Fund, GTZ, RWE and TÜV Rheinland. The Environment Ministry affords interested businesses the opportunity to actually take part in bilateral talks with host countries. As part of the CDM Initiative, one of the key goals of the MoU is to enhance business-to-business cooperation on climate change projects conducted under the CDM.

The first German-Peruvian meeting supplied some important input: the Peruvian side provided detailed information on the conditions for cooperation and on the role and activities of Peru's CDM institutions (CONAM and FONAM) and specific business sectors. Peru is primarily interested in cooperation on renewable energy (biomass and wind energy), landfill gas use, forestry projects and the transport sector.

Further details on Peru and the agreed activities are available on the CDM/JI website:  
[www.jiko-bmu.de](http://www.jiko-bmu.de)  
(in German only)

For more about the Latin America Carbon Forum, see the Forum website:  
<http://www.latincarbon.com/2007/english/index.htm>



Forestry projects are among the CDM project opportunities in Peru.  
Source: Cisco Dietz

## JIKO News

### CDM-Initiative

# Amendments to Germany's ProMechG Provides Greater Incentives for Climate Change Mitigation at Home and Abroad

**With the entry into force of the legislative package under the Federal Emissions Trading Allocations Act 2012 on 11 August 2007, a number of changes in the Project-Based Mechanisms Act (ProMechG) also came into effect. JIKO Info looks at the most important changes.**

The **charges and fees** for CDM and JI project approval agreed in the last legislative period are to change: the costs will now be completely refinanced by auctioning emissions allowances from the reserve. This allows Germany to align its charges and fees to the internationally accepted rates for CDM and JI projects. They will now range between € 50 and € 600. This move requires a legislative change in the form of an amended charges and fees ordinance (ProMechGebV), which will be finalised in the near future.

Another important change involves the **JI Second Track** process initiated by the JI Supervisory Council in October 2006. This sets out rules for participating industrialised nations that do not yet meet the full requirements as regards emissions reporting and inventories. In such cases, JI projects must be submitted to the JISC. With the latest amendment, the legislature ensures that JI projects approved by the German Emissions Trading Authority (DEHSt) also qualify for JI Second Track. Amending ProMechG in this way widens the circle of potential emissions reduction projects in other countries because it is expected that most JI host countries in Central and Eastern Europe will have to take the JI Second Track route.

Also, the altered legal basis provides an opportunity to request endorsement for **national JI projects**. This places the existing practice operated by DEHSt on a sound legal footing, whereby domestic projects are subject to preliminary review for suitability based on a Project Idea Note.

With the Allocations Act 2012, the overall allocations for facilities participating in the EU Emissions Trading Scheme is fixed at 450 million credits per year. The maximum number of credits that can be surrendered from CDM and JI projects is now set at 22 percent, allowing facility operators in Germany to make use of up to 90 million CERs and ERUs per year.

JR

The texts of all laws, including the latest amendments, are available on the JIKO website: [www.jiko-bmu.de](http://www.jiko-bmu.de) (in German only)

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