

## Memo

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cc:	Benoit-Henri Koch, Tom Clough, Patrick Verhagen, Tim Mackay, Daniel Bach, Eamon Ginley, Vincent Aloysius, Adrienne Williams, Roland-Jan Meier
From:	Bruno Vanderborght
Date:	March 8 <sup>th</sup> , 2005
Subject:	Update and Recommendations for CDM in Indonesia

### Introduction

This memo informs you about the status of Heidelberg - Indocement's CDM projects and what this means for Semen Cibinong and Holcim.

### Summary and Recommendation

- Indocement has a contract with the World Bank Carbon Fund (WB-CF) to develop two CDM CO<sub>2</sub> reduction projects, one by reducing clinker factor another by increasing AFR. When eventually realized, the WB-CF will purchase the resulting credits from Indocement at a price of ~4 \$/ton CO<sub>2</sub> and sell them to the Dutch Government at an undisclosed price. The projects will run till 2013 for MIC and 2024 for AFR and at its peak generate 2 to 5 M\$/year.

On February 25<sup>th</sup>, an important hurdle in the bureaucratic approval process has been taken for the AFR initiative. There is still a long and difficult way to go for Indocement before final approval and revenue generation of both.

- Semen Cibinong and any other cement company can now use Indocement's methodology to develop a CDM project generating credits by using AFR instead of fossil fuel.

The methodology requires that the cement company demonstrates that the use of AFR is financially less attractive than business-as-usual and would not be done in the absence of CDM credits, and becomes attractive thanks to the sale of CDM credits. The demonstration must be certified by an independent auditor and publicly accessible on the internet.

Lafarge(Malaysia) is in a similar process, but only using biomass waste and - to my knowledge - will trade the credits within the Group.

- The WB-CF invited Semen Cibinong to do similar AFR projects and sell the credits to the WB-CF. CIE advised Semen Cibinong not to sign the contract because the commercial conditions were not interesting and Holcim OpCos should first offer the CDM credits to Holcim OpCos in Europe before selling outside the Group.
- Holcim(Costa Rica) was in a similar stage when we decided in August 2004 to stop the process.
- CDM remains a very difficult and costly process, with only a small chance for success.

I advise to still wait and see a few months until Indocement has eventually successfully passed phase 3.

- In case a Holcim OpCo would be interested to use biomass as a fuel, but this would not be sufficiently financially attractive on its own merit, then the company could apply for CDM certification to improve the financial case.
- More specifics on the Indocement case as well as the bureaucratic approval process are summarized in Appendix.

Bruno Vanderborght