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Too Many Mechanisms, Too Few Institutions: Challenges and Chances For EITs

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Climate Focus



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Who we are?

- Climate Focus is a newly established Climate Consultancy with focus on assisting JI and CDM project participants and host countries.
- Credentials: Experience from ERUPT and the World Bank

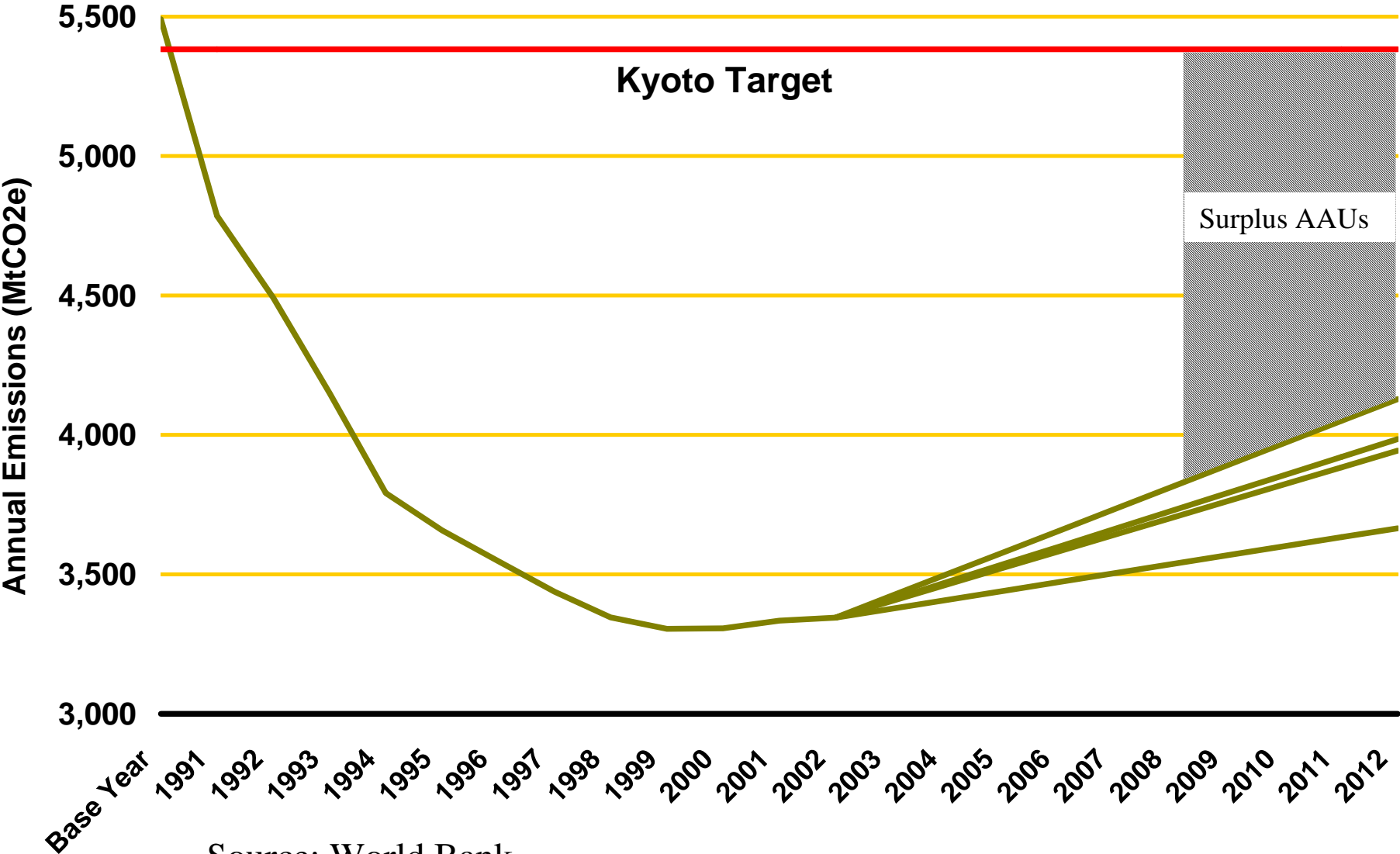


EITs: A flurry of AAUs....

• Country	Annual Headroom (MtCO ₂ e)	Total Headroom (MtCO ₂ e)
• Russian Federation	580-876	2,900-4,380
• Ukraine	351-365	1,757-1,825
• Poland	81-125	405-627
• Romania	81-97	407-486
• Bulgaria	57-64	286-322
• Lithuania	26-28	130-142
• Hungary	14-23	73-118
• Latvia	14-15	70-78
• Estonia	17-20	86-100
• Slovakia	5-12	29-59
• Czech Republic	9-25	44-127
• Croatia	0-3	(-2)-14
• Slovenia	(-5)-(-2)	(-25)-(-13)
• Total	1,230 – 1,651	6,160 – 8,265

Source: Emissions data for 2002 (all gases) compiled based on UNFCCC website (ghg.unfccc.int); projections for 2010 based on U.S. DoE (2004) International Energy Outlook 2004 Mid- and Hi- scenarios, and from International Energy Agency (2004) World Energy Outlook 2004; Projections for Russia also based on Lecocq and Shalizi (2004)

Surplus Allowances



Source: World Bank



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And a flurry of mechanisms

- JI
- First Track JI
- IET
- EU ETS
- GIS
- RECs
- ???



The Mechanisms: JI, second track

- Project-based
- Rules not yet defined but....similar to CDM (?)
- Independent validation and verification (but: Transfer only after eligibility criteria are met)
- Often combined with transfer commitments of AAUs for “early credits”
- Attracts private sector and governments
- ERUs can be used under the EU ETS
- EITs have already significant experience
- voluntary



The Mechanisms: JI, first track

- Project-based
- Eligibility criteria need to be met
- Rules not yet defined but....up to the host country to define
- Host country validation and verification
- Flexibility which allows programmatic and sectoral approaches
- Danger of creating multiple systems (often driven by buyer-preferences)
- Challenges for Host Country
- ERUs can be used under EU ETS
- Voluntary



The Mechanisms: EU ETS

- Covers energy intensive industries
- Helps building capacity and knowledge
- Challenge: high demand for capacity
- Strict rules
- High prices for EUAs
- Not a mechanism to distribute surplus allowances (State aid problem)
- Mandatory



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The Mechanism: International Emissions Trading

- Not well defined
- No environmental benefits
- Basis for EU ETS and JI
- Significant flexibility
- Still: low political acceptance
- AAUs of limited value for (EU) private sector
- Voluntary



AAU backed GIS

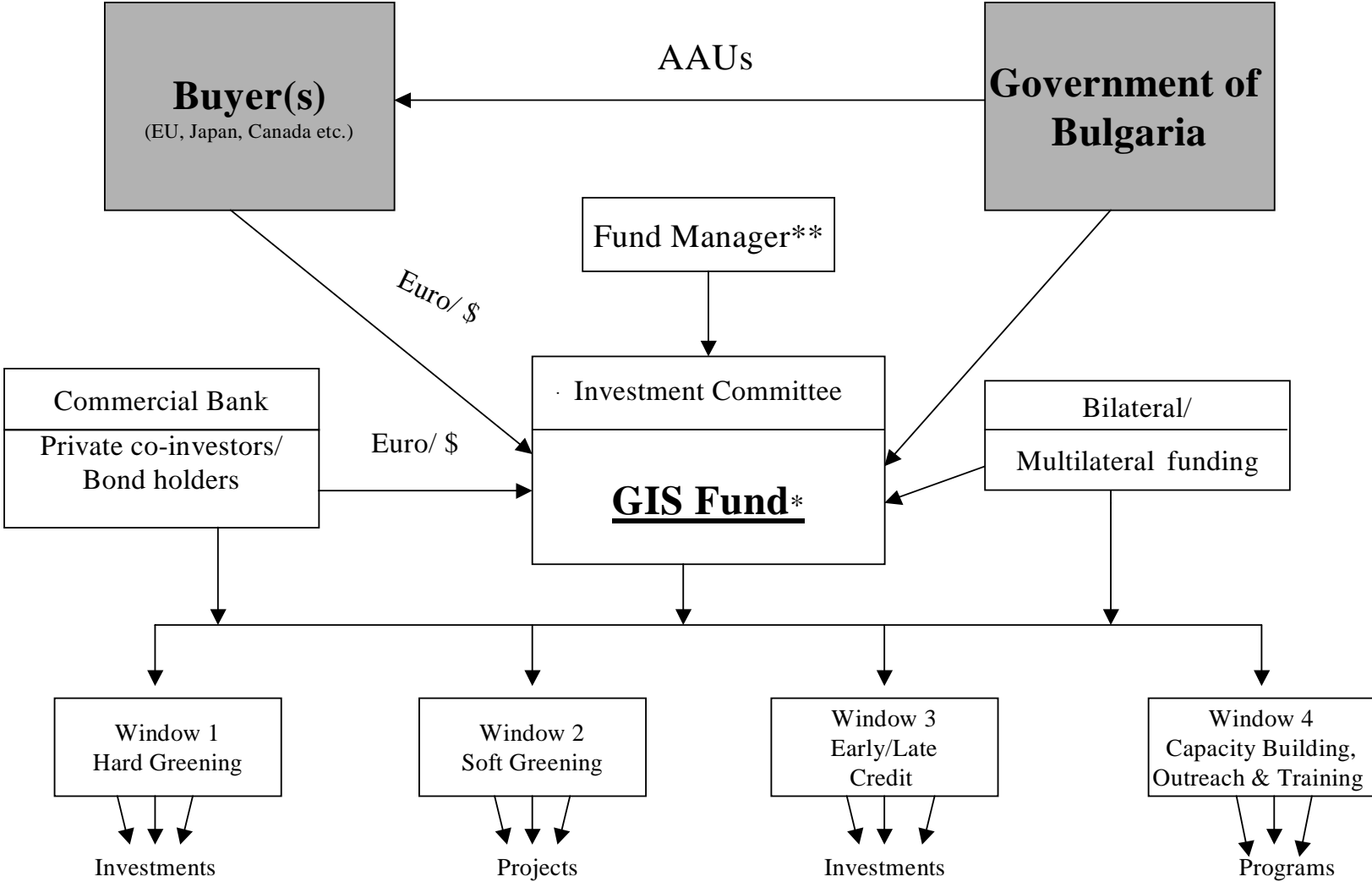
Comes in many disguises. Some proponents want:

- Buyer: JI – but newly defined
- Buyer: Backed 1:1 with “real” Emission Reductions
- Buyer: Dept for AAU Swaps
- Securitizing Bank: Sovereign to sovereign transfers only, Leveraged financing
- Seller: Full Flexibility – mechanism to achieve Acquis
- Seller: Funds for institutions and capacity
- Seller: Funds for the general budget

How to combine the different approaches?

Example:

Generic Structure of a AAU Green Fund



* GIS Fund is a Bulgarian institution / company, wholly owned by GOB, with or without private participation.

** Fund Manager is a professional manager with financial and fund management experience



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Challenges

- Very limited capacity, limited funds available
- UNFCCC delegation: 1-3 people
- No spare capacity, room, people
- Little knowledge, understanding in the country
- Lots of misunderstandings (and fears)

But at the same time: massive opportunities



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Potential Value of the AAUs

- Japan, Canada, and Western Europe need hot air to comply with the Kyoto Protocol
 - Potential demand for outside credits: 2.5 - 3.5 btCO₂e
 - Potential supply of CDM/JI: 0.3 - 1.0 btCO₂e
 - ⇒ **Required amount of “hot air”:** 1.5 - 3.2 btCO₂e
- Supply (6.2 - 8.2 btCO₂e) is larger than demand
 - but there is value in holding allowances (risk-hedging, banking, monopolistic behavior).
- The price is thus very uncertain: **€5-€10** range?
 - Sale of 2.5 btCO₂e could bring **12.5 – 25 b€**+ 3-5 times as much in leveraged investment to EITs



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Opportunities

- Use all mechanisms and all flexibility!
- Smart management to maximize resources
- Negotiate up-front payment under GIS to strengthen national capacity
- Variety of buyers and interests can be optimized for the benefit of the country
- Potential to channel funds into critical areas
- Establish AAU management system



How to combine the different mechanisms, approaches, ideas?

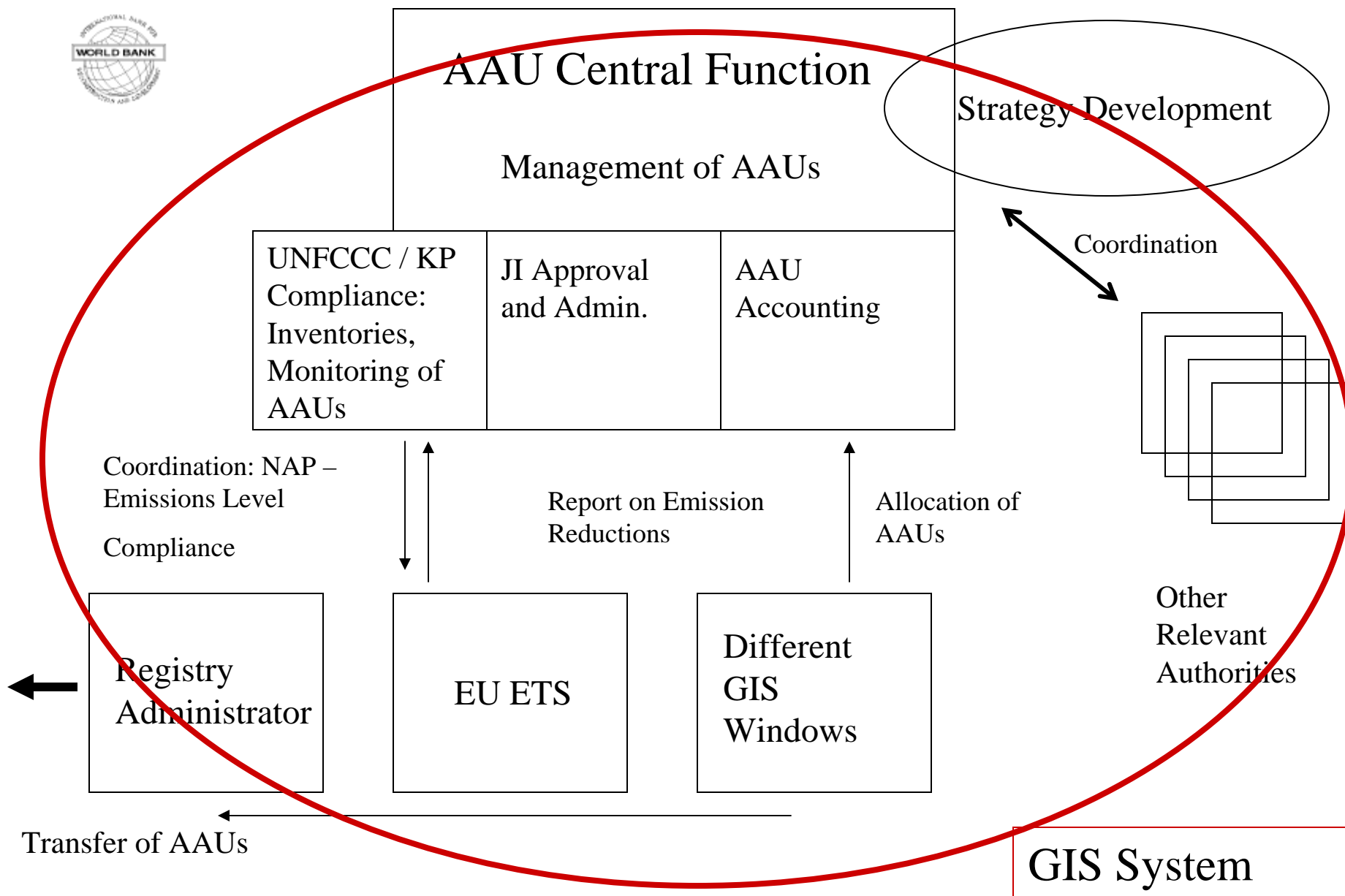
Solution: A general AAU management system

GIS would be established as AAU managed scheme.

Coordination of accounting and management.

Coordination of emissions, assets and liabilities.

Coordination of all mechanisms.

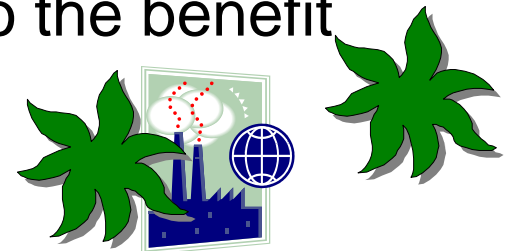


Picture 1: Administrative Functions of the AAU Central Unit



Advantages for EITs

- One coordinated management system
- Cross-support between mechanisms (proceeds and fees from one supports the institutional set up of the others)
- “soft” greening funds can help to establish institutional capacity
- Coordinated use of the mechanisms to the benefit of the country (





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- Questions?

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