AAU Trade & Green Investment Schemes: Post 2012 potential

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EBRD & GIS

- €40 mln committed for AAU purchase in MCCF by Ireland and Spain
- Scope and interest for more
- Target: 1-2 GISs developed in 2008/2009
- Revenues to be co-aligned with existing EBRD / EIB financing facilities (e.g. Sustainable Energy Financing Facilities)
- Advanced preparations in Poland. Informal consultations with Hungary, Ukraine, Russia, Bulgaria, Romania and Poland
- Supporting market infrastructure (template for AAUPA, AAU pricing guidelines, carbon market facilitation support in Ukraine)
Potential demand for and availability of surplus AAUs 2008-2012

Potential AAU surplus

Global demand
Potentially available AAUs

Source: World Bank estimates
# Potential size of AAU market

<table>
<thead>
<tr>
<th>Volume of AAUs traded (millions)</th>
<th>Price (€ /AAU)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Sellers expectations (9 – 17)</td>
<td>Buyers expectations (7 – 12)</td>
<td></td>
</tr>
<tr>
<td>100</td>
<td>900</td>
<td>1,200</td>
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<tr>
<td>1000</td>
<td>9,000</td>
<td>12,000</td>
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<tr>
<td>2200</td>
<td>19,800</td>
<td>26,400</td>
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*In Mln € for the price bound 9 –12 €*
First AAU deals emerging

Trading for compliance dominated by governments with participation of Japanese private entities

Likely to be a buyers’ market

Sellers may have to be price takers

BUT, some sellers can have more impact on trade terms than others (Russia, Ukraine)

First movers could have advantage
AAU trading: Strengths

- Programmatic approaches
- Flexibility (e.g. simple sectoral additionality tests)
- Long term perspective
- Low transaction costs
- Relying on host country systems for validation, monitoring, verification and reporting
AAU trading: Weaknesses

- Mistrust
- No track record
- No market infrastructure (rules, institutions, tools)
- Prejudice against hot air trading
- Vulnerability to politics and fraud
AAU trading: Opportunities

- As JI are delivering slowly, GIS can salvage carbon finance benefits by Annex I countries until 2012.
- Facilitate larger financial flows and technology transfer than project based mechanisms.
- Facilitate adoption of quantitative emission targets by developing countries (unlike CDM).
- Alignment with national priorities.
- Strengthen local capacity for strategic planning and project management.
AAU trading: Threats

- Compromise environmental integrity
- Compromise good practices of public expenditure management
- Petrify subsidy dependence of low-carbon measures
- Capture by public sector
- Overkill by CDM type rules
- Micromanagement by buyers
- Crowd out CDM/JI projects
- Distort EUETS and similar allowance trading schemes
Credible Green Investment Schemes

- Transparent
- Accountable for results
- Implementable and operationally efficient
- Protected against fraud, politics and vested interests
- Business and market friendly
- Pilot transactions -> benchmarks -> standards
Future of Green Investment Schemes

- GIS: Testing ground for post-Kyoto flexible mechanisms
- Complement to credit instruments and national C&T systems until 2012
- Post 2012: convergence between GIS and programmatic, “track 1” CDM