

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 size of AAU market

		Price (€/AAU)	
		Sellers expectations (9 – 17)	Buyers expectations (7 – 12)
Volume of AAUs traded (millions)	100	900	1,200
	1000	9,000	12,000
	2200	19,800	26,400

In Mln € for the price bound 9 – 12 €



AAU market structure

- 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

