

MONEY OUT OF AIR

On 28-29 April 2008 the third annual carbon market forum was organized in Moscow by the World Bank, the Ministry of Economic Development and Trade of the RF, JSC "Gazprom" and the UN Development Program.

Our questions were answered by Marina Olshanskaya, UNDP's regional technical specialist for climate change.

- Even though this is the third forum of this kind in Moscow, the carbon market is a relatively new concept for Russia and the CIS region. What is all this market about and what goals were pursued by the forum organizers ?

The Kyoto Protocol has not only recognized global warming as an existing problem, but also provided the member-states with profitable market mechanisms to tackle this problem. The carbon market offers an opportunity for buying and selling greenhouse gas emission reduction units, implementing climate-friendly projects and bringing in investments from the private sector to address this global environmental issue.

Carbon forums are convened in different regions across the world, mostly in the countries with a significant potential for reducing greenhouse gas emissions. In China, for example, eight events of this kind have been organized, efforts are being intensified in the countries of Latin America and Asia. Last year the carbon forum was organized for the first time in Central Asia and several national forums have been held in Ukraine.

These events aim to bring together all stakeholders on the market: the national governments defining national conditions of trading, sellers as potential participants and buyers – international stakeholders in order to discuss the issues and prospects of developing the carbon market in a specific regional context. The Moscow forum has always been focused on the Russian market. This year our proposal was to review the experience of other countries of the region (Belarus, Ukraine, Uzbekistan, Bulgaria and other East European countries) with a view to identify common problems and possible solutions towards promoting the carbon financing market in these countries. Next week the global carbon forum "Carbon Expo" will be organized by the World Bank in Cologne.

- You have mentioned that such forums have taken place 7-8 times in some of the regions, why is the advance of the carbon market is lagging behind in our region?

There are several reasons for "the delay" in establishing the carbon market in the Eastern Europe and CIS region.

One of them is that the joint implementation mechanism (to be used by the countries which have undertaken quantitative emission reduction commitments such as Russia and Ukraine), as one of the Kyoto protocol mechanisms, was officially launched in

2008 only. In Latin America, China and other countries having no commitments to reduce emissions in the framework of the Protocol (the countries of Central Asia and Caucasus in our region), a different mechanism – the clean development mechanism – was adopted and has been available since 2004. The goals in both cases are the same, just different application geography.

Another reason for our region lagging behind is the lack of haste in engagement of governments in this process. Russia, for example, ratified the Kyoto Protocol in 2004 and back then was on radars of investors who started developing design documents and even implementing the projects in the hope that national rules and procedures for project approval would be promptly established. Unfortunately, it took four years for this to happen and meanwhile many potential buyers have reoriented towards China where hundreds of projects are now under way, millions of dollars are being transferred to companies' accounts and the process is almost self-sustaining. Today an optimistic message has been voiced at the forum: the Ministry of Economic Development and Trade of Russia is assuming the formal authority to accept and review the projects. In March the long-awaited "window" of projects was opened and there is a hope that the market will start working. As many as 75 projects from Russia have been submitted to the International Committee for review, which is a good beginning.

- Nevertheless the experience of some of the countries in the region suggests that even a "good start" is not a guarantee of the market intensification, like in Bulgaria. Why does the carbon market, more often than not, get stuck?

The process of carbon project development is rather complicated. It is bureaucratized in the first place, both internationally and nationally, and secondly, it is technically sophisticated: account should be taken of the emissions concept, calculations, affirmations, implementation challenges, use of new technologies etc. One of the challenges in this stage is limited or lacking institutional capabilities in the country. It becomes necessary to establish appropriate legal framework, develop institutions, train specialists and experts. It is essential that competition emerges on this market to reduce costs and transaction expenses relating to project preparation and registration. That is to say, the market should start working by market laws.

In the initial phase, assistance is provided by international organizations such as the World Bank, UNDP, European Commission, international agencies. In the future, as the benefits and positive outcomes of carbon market development become obvious, this should become a priority area for the governments and business.

- Who should invest into securing the conditions for development of the carbon market – the government or business?

The international rules provide that each country should designate the state authority responsible for review and approval of the carbon financing projects. Its duties will include establishing clear and coherent domestic rules of the game and identifying priority directions for the market development.

The market, however, will start working only if pushed from inside. Ideally, the business should be the pusher, since above all, they will obtain an additional source of income to support their activities. Let us say, an energy generating company will be able not only to upgrade its capabilities, but also get money, as the saying goes, out of air. As yet, the business does not see real profit for itself. Implementation takes years, particularly for the first projects. And until the business obtains first actual profit from selling emission reduction units it won't get interested in investing in new employees, setting up infrastructure etc. This is what practically happens in China and India where the Kyoto Protocol mechanisms have been working for 3-4 years and involve over 1000 projects. Both the governmental authorities and local business have come to understand their roles and expected benefits and as a result no need for additional aid from international organizations and no need to persuade or appeal to anybody.

- How long will it take for the players of this market to see tangible benefits?

Two years seems to be a realistic time horizon for this market. A good deal hinges on how meaningful and successful the first projects will be. In the CIS region there are already real projects the results of which can be seen. In Armenia, for example, the project has been registered on waste recovery and power generation at the Lusakert poultry factory using a biogas setup. The same country has the registered projects on management of waste and methane from the landfills of Erevan and construction of two small-sized hydropower plants. Armenia, however, is a small country and may have just several projects more, while the potential of Russia and Ukraine on the carbon market is enormous.

- By the time the results of the first projects are to be seen and we get prepared "in a systemic way" for participation in the carbon market, the term of the Kyoto Protocol will have expired and we'll have to begin from the beginning

The Kyoto Protocol expires in 2012, which does not mean, however, that the carbon market will cease to exist at that point. Negotiations are currently under way on a new treaty to replace the Kyoto Protocol after 2012. The latest developments in the world, including the USA discussions of their own emission trading scheme, show that the potential for such projects will continue to grow. That is why all countries of the region should learn how to operate on this market and derive the best benefits from it.