



EcoSecurities Group plc

UNFCCC Technical Workshop on JI;

Additionality & JI

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JI & Kyoto

Emissions over the allowed limit

Emission Allowances

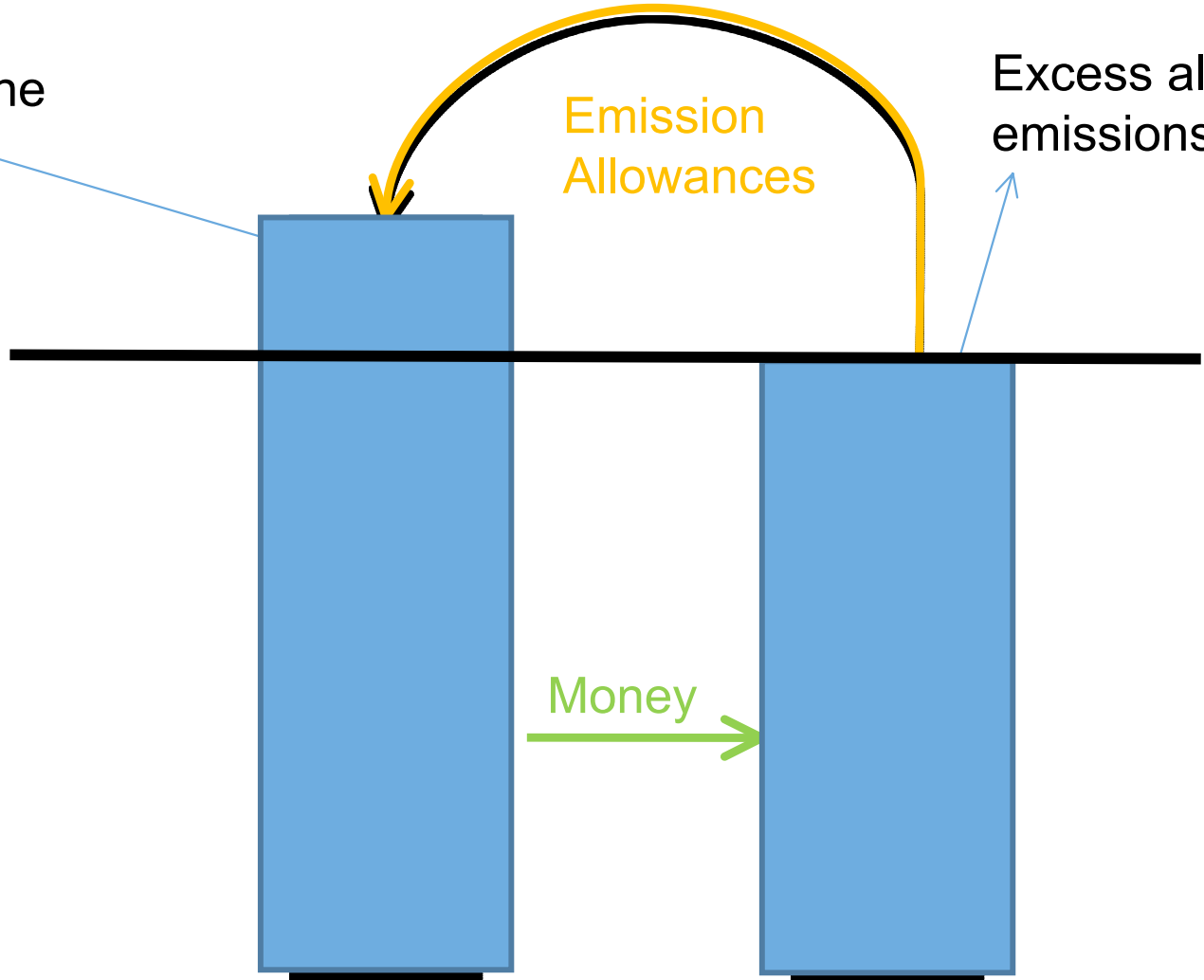
Excess allowed emissions

Allowed emissions limit



Central authority
(e.g UN, EU,
Government, etc.)

Money





The New World Order

- The US never ratified Kyoto and the group of Annex 1 countries did not enter a carbon constrained world.
- Many Eastern European countries entered phase 1 of Kyoto with a surplus of AAUs
- CDM established itself as the primary offsetting mechanism through the application of rigorous UNFCCC procedures including third party verification and proof of additionality
- JI was broken down into two tracks, Track 1 and Track 2
- JI Track 2 was established in the image of the CDM



Hard Choices

- Eastern European countries have to make hard choices about the sale of their superfluous AAUs in the form of either AAUs or ERUs. Especially if there is a steep price hike for ERs and the backlog in CDM results in sustained under production.
- If countries accept the idea that there will be Kyoto targets post 2012 then long term commitments are key to designing strategy (with the exception of EU members who will have binding targets regardless of Kyoto).
- Additionally, there is price and reputational risk of offloading too many AAUs and/or ERUs into the system pre-2012, independent of compliance risk in post 2012.



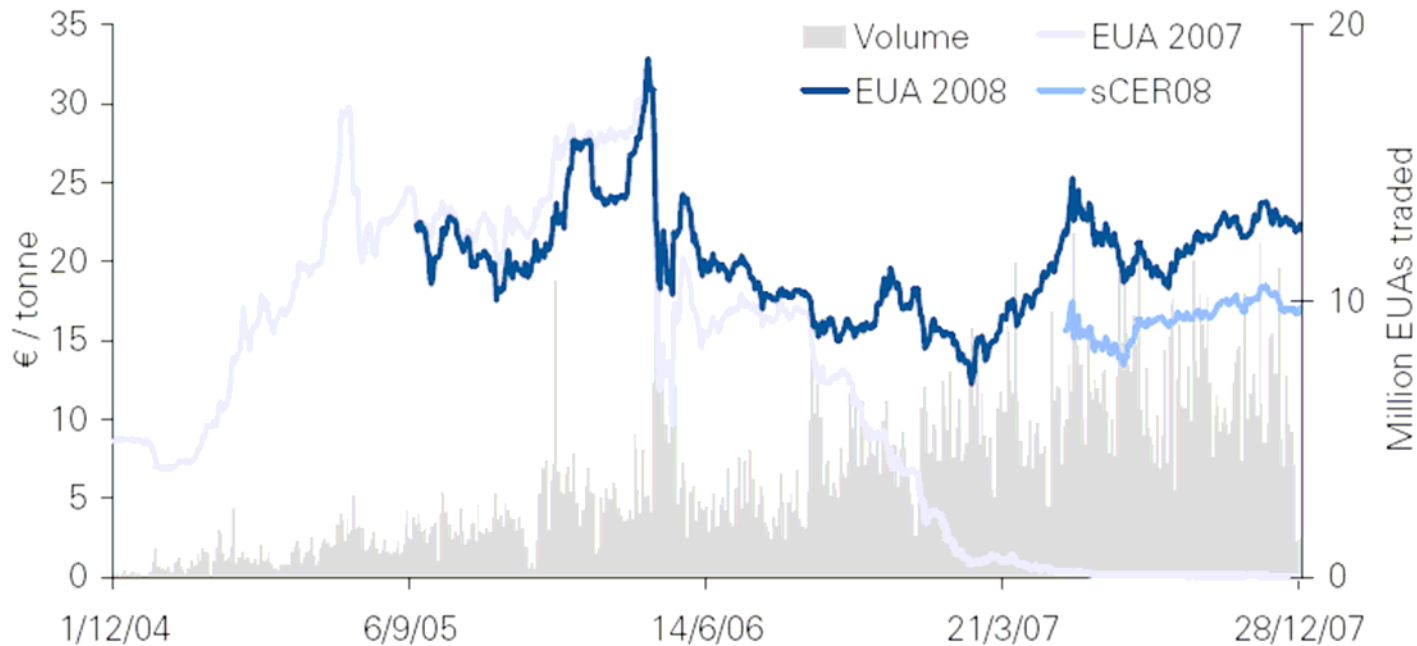
Implications for JI

- Regardless of a JI country's overall selling strategy, she should have a vested interest in ensuring that emissions reductions are real and additional.
- If a country accepts the idea that post 2012 commitments are inevitable, then projects generating real and additional reductions enable them to foster a low-carbon economy that will continue to contribute to their post 2012 targets as well as facilitate replication of low-carbon technologies in the future.
- On the other hand, if a country [non-EU] does not accept that post 2012 commitments are inevitable, then flooding the market with AAUs or Track 1 ERUs that are not strictly additional is likely to result in a ERU/CER price collapse or a discounted price for Tack 1 ERUs.

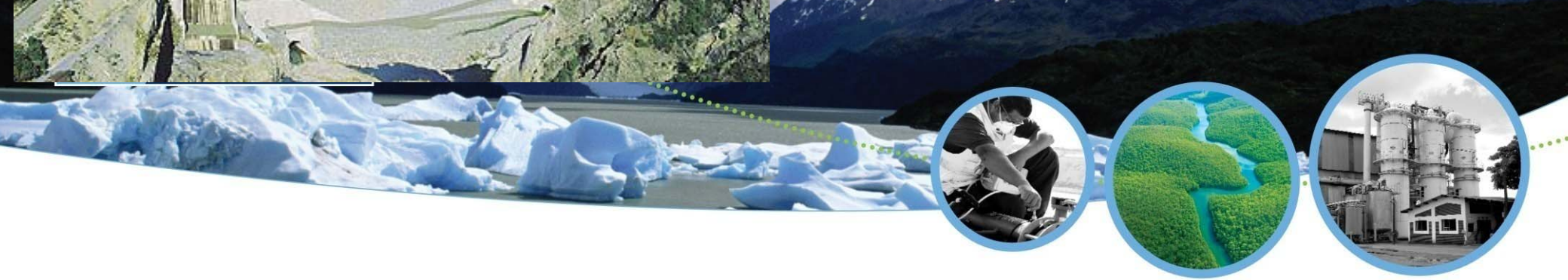


Price Risk – Flooding

Figure 2.5: Volumes and prices in the EU ETS 2004-07
 Daily OTC prices using Point Carbon's bid/offer methodology.

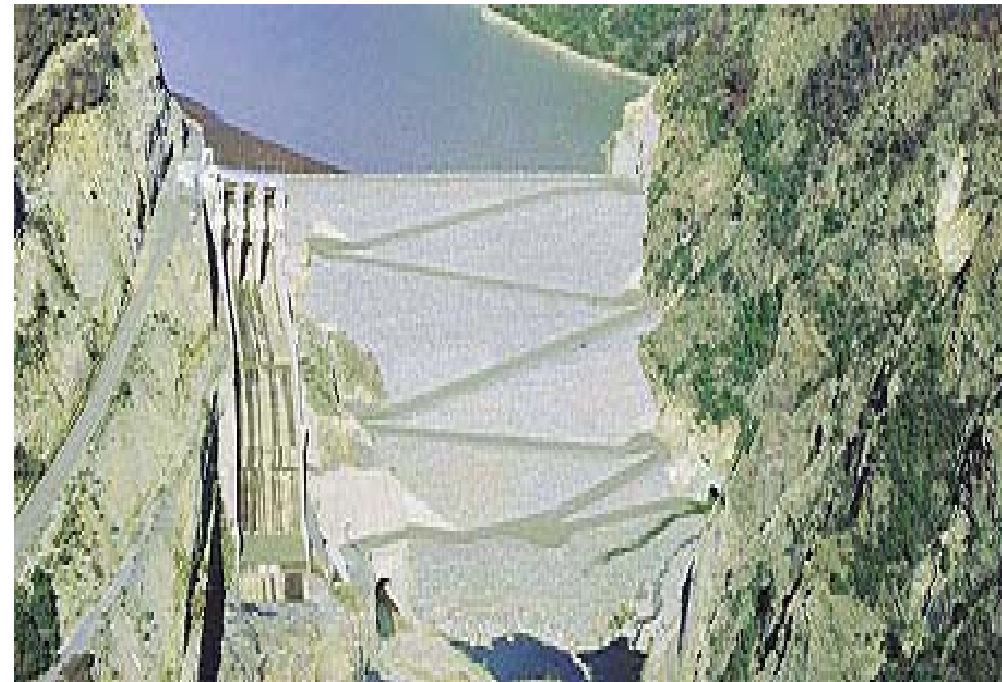


Source: Point Carbon's Carbon Market Trader



Price Risk – Perception

- A discounted price for ERUs generated through Track 1 is a real possibility if they are perceived by buyers as not real or additional.
- Such a discount could be marginal (e.g. €0.5) or significant (similar to what has happened to the price for large hydro in the CDM).





Possible Solutions

(JI Country Perspective)

- Limit the sale AAUs & ERUs to a reasonable volume
- Establish Track 1 procedures that ensure that emissions reductions awarded through Track 1 are real and additional.
 1. This is consistent with the larger goal of the Kyoto Protocol, which is to reduce GHG concentrations and mitigate climate change;
 2. It minimizes risk – post 2012 compliance, price and reputational



Lessons from CDM - Additionality

- Clear & consistent guidance
- Develop regional benchmarks on a sectoral basis.
 - Is the technology in question required by law or regulation?
 - Is the technology in question the least cost option?
 - Is the technology in question common practice?
- Simplify baselines where ever possible.



Lessons from CDM - General

- **Institutional capacity is key**
 - Without sufficient institutional capacity, it is impossible to get the volume of ERs necessary through the system
 - Track 2 has the opportunity to address this issue pre-emptively and Track 1 could potentially process larger volumes because it is country specific and could be less prone to bottle necks.
- **Effective monitoring is essential**
 - Regardless of the other areas that have room for improvement, effective monitoring is critical.
 - Emissions reductions must be correctly monitored, recorded and verified to guarantee that they are real [& additional].



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