

Agenda

- AAU and GIS The Basics
- AAU and GIS Requirements for GIS
- AAU and GIS The Market
- What has AAU trading taught us about ecological markets?
- The future of Green Investment Schemes?

AAU and GIS – The Basics

- The United Nations Framework Convention of Climate Change (UNFCCC) was established to combat anthropogenic climate change.
- At the third Conference of the Parties (COP3) the Kyoto Protocol (KP) was established to absolutely reduce global greenhouse gas (GHG) emissions until the end of year 2012.
- Two participating groups emerged:
 - Industrialized states and economics in transition with a specific GHG emissions target (Annex I countries)
 - Developing countries with no specific GHG emission target (Non-Annex I countries).
- The absolute reduction target of all Annex I countries is 5,2% less GHG emissions based on the year 1990 GHG emissions.
- To achieve these goals three flexible mechanisms are included in the KP
 - International Emissions Trading (IET)
 - Joint Implementation (JI)
 - Clean Development Mechanism (CDM)

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AAU and GIS – The Basics

- The Primary **cap-and-trade regime** of the KP is International Emissions Trading
- Annex I countries receive Assigned Amount Units (AAUs), that represent the total GHG emissions in the year 1990 less their GHG emission target as written in the Annex B of the KP times the years in the commitment period.
- Within the commitment period excessive AAUs can be freely traded among Annex I parties.
 - In theory excessive AAUs are the result of **internal mitigation** of GHG emissions
 - In practice there are the result of **political bargaining**.
- The first KP commitment period is from **1.1.2008 until 31.12.2012**.
- Due to the vast amount of information compliance under IET is not to occur before QI/QII 2015

 \rightarrow "True up period" allows AAU trading Post 2012



AAU and GIS – The Basics



AAU and GIS – The Basics

- **Oversupply of AAUs** from Russia, Ukraine and eastern european states
- Green Investment Schemes (GIS) shall address the "hot air" surplus of AAUs
 - Revenues of selling AAUs shall be channeled in a GIS to fund green investments in the seller country
 - A GIS links AAUs with green investments and their emission reduction efforts
- Yet
 - GIS is not legally binding under the KP
 - Purely voluntary commitmment by AAU purchasers
 - Only sanction available for purchasing/trading AAUs with out a GIS in the seller country is ",blame and shame"
 - That sanction applies also for AAUs from not well managed GIS



AAU and GIS – Requirements for GIS

- Two **main drivers** for setting up a GIS
 - GIS is a requirement by the AAU purchaser to increase integrity of AAU trading and to potentially enter the host country market with own technology
 - GIS has the potential for the GIS host country to foster green investments based on market based sales of excessive AAUs
- GIS Host Country and AAU purchaser jointly decide upon a greening plan
 - Hard greeners:
 - High greening ratio, up to 1:1 greening per AAU (e.g. Pre-JI AAUs)
 - Continous monitoring, reporting and verification required
 - Certain control over fund allocation and implementation by AAU purchaser
 - Close to Joint Implementation
 - Soft greeners:
 - Greening ratio depending sectors to invest in, also capacity builling possible
 - Annual reporting to AAU purchaser
 - Passive position, relying on predefined GIS structure
 - Understanding GIS rather as subsidy then as project based mechanism

AAU and GIS – The Market

- Market Participants in AAU and GIS
 - Annex I countries with a deficit
 - Only Japan allows private entities to used AAUs also for compliance under a national voluntary ETS
 - Annex I parties with an AAU surplus
 - Few Intermediates
 - Technical consultants

Trading of AAUs

- Not publically traded on exchanges
- Primarily OTC trading between governments of Annex I countries, sometimes with the help of intermediates
- low liquidity, high volumes (>>1 Mio.)
- Spot or forward trading?
- Downward price spiral in 2010

AAU and GIS – Carbon Financial Engineering



What has AAU trading taught us about ecological markets?

- What has worked?
 - "Greened" AAUs provide a **cost efficent compliance option** for Annex I countries
 - Voluntary committment to build up Green Investment Schemes and challenge the AAU surplus with investments in green/ecologcial markets
- What has to be improved?
 - Projects for GIS public vs. Private sector acquisition
 - Building trust and transparency
 - Standardisation of a "greened" AAU or a GIS
- What will not survive?
 - **Mismanagement** of AAU proceeds
 - The large surplus in the KP committments for Annex I parties

The future of GIS?

- GIS can consider other financial resources, public or private, to foster green investments continously in the future
- GIS can use modern WEB 2.0 technolgies for project applications, selection, monitoring, etc.
 - UNFCCC webside shows the basis
 - Getting local and international communities to participate
- GIS can build on a lighthouse project, visible, interesting, high tech, based on multilateral joint efforts
- Draft Conclusion by the LIFECF/2010/AWG-GT

[AAU and] Green Investment Scheme – and option for Post 2012!





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