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The Future of Emission Trading – Options and Challenges for CEE Countries

3C supports a market based approach for climate protection

→ emissions trading is indispensible!

- A harmonized international framework is needed to ensure a liquid and efficient global carbon market
- Longterm and clear reduction targets for greenhouse gas emissions must be set to provide reliable investment conditions
- Clear targets for renewable energy and energy efficiency espouse sustainable reduction of greenhouse gases

Discuss possibilities and requirements to link these countries to the EU-ETS and other ETS. Identify concrete needs to make the ETS of countries involved complementary, e.g. legal and administrative needs to implement emission trading between the countries involved.

Challenges and Options for CEE Countries are basically split into three groups:

1. Non-Annex I Countries (Clean Development Mechanism CDM)

Bosnien-Herzegowina, Serbia und Montenegro, Albania, The Former Yugoslav Republic of Macedonia and Republic of Moldova qualify for the CDM mechanism. The registration process for emission reduction projects at the CDM executive Board is well developed, but still often subject to changes. Therefore the CDM is a challenging instrument to promote future investments in the CEE countries.

2. Annex I Countries (Joint Implementation JI)

The Russian Federation, Ukraine, Croatia and Belarus are Annex I countries to the Kyoto protocol. To be eligible for participation in international emissions trading under the Kyoto Protocol a legal and operational framework is needed. The main eligibility requirements are listed below:

- National designated focal point
- National registry for assigned amount units
- National annual report on latest GHG inventory
- National guidelines and procedures for project approval

Investments in JI are complex and risky due to yet unclear regulations within the different countries. A project developer may fear that his investments in project development may be lost because of a missing legal or operational framework.

3. Annex I Countries and EU (European Emissions Trading Scheme EU-ETS)

Czech Republic, Slovakia, Hungary, Poland, Slovenia, Latvia, Estonia, Lithuania, Bulgaria (EU candidate country 2007) and Romania (EU candidate country 2007) participate in the EU ETS. They have already implemented the EU Directive 2003/87/EG and are more or less actively involved in trading of emission certificates. Generous allocation methods with a political background drive the market compared to low mitigation costs in CEE countries.

Discuss the potential of Green Investment Schemes (GIS). Identify shortcomings of GIS and present realistic solutions.

Discuss the potential impacts of GHG projections in the countries involved on emission trading, e.g. the impact of predicted GHG reduction surplus of the Ukraine on the emission trading.

The CEE countries have a major surplus of AAU's due the perestroika /"Restructuring". During the first Kyoto commitment period 2008-2012 Russia alone has an estimated surplus of 3,1 billion t CO2e, the rest of the CEE countries estimated 1,2 billion t CO2e. This surplus would surpass the demand of global emission certificates and would have a major impact on prices of emission certificates. As a net seller the CEE countries do not have interest in low prices so they should only sell a share of 20-30% of the surplus to maximise their revenues. As the surplus did not result through emission reductions investor countries as for example Germany will not buy "hot air" certificates. A "Greening" of the AAU's with a green investment scheme or JI Track 1 will satisfy investor countries and will provide social, environmental and image-related benefits for CEE countries.