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# Institutional development & Kazakhstan perspectives in CDM/JI



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# Structure of the presentation

## A quick review of

- ER supply&demand and Carbon market
- CDM/JI Kyoto Criteria and JI key features
- **CDM/JI Benefits**
- **Kazakhstanian Context**
- **Proposed institutional arrangements**
- **Progress of Japan/Kaz CDM/JI project**
- **Way forward**



# Kyoto Entrance-into- force & Flexible Mechanisms

- **Clean Development Mechanism (CDM)**
  - Projects in developing countries
  - Sustainable development objective
- **Joint Implementation (JI)**
  - Projects between countries with GHG reduction targets
- **International Emissions Trading(IET)**
  - Between countries with GHG reduction targets

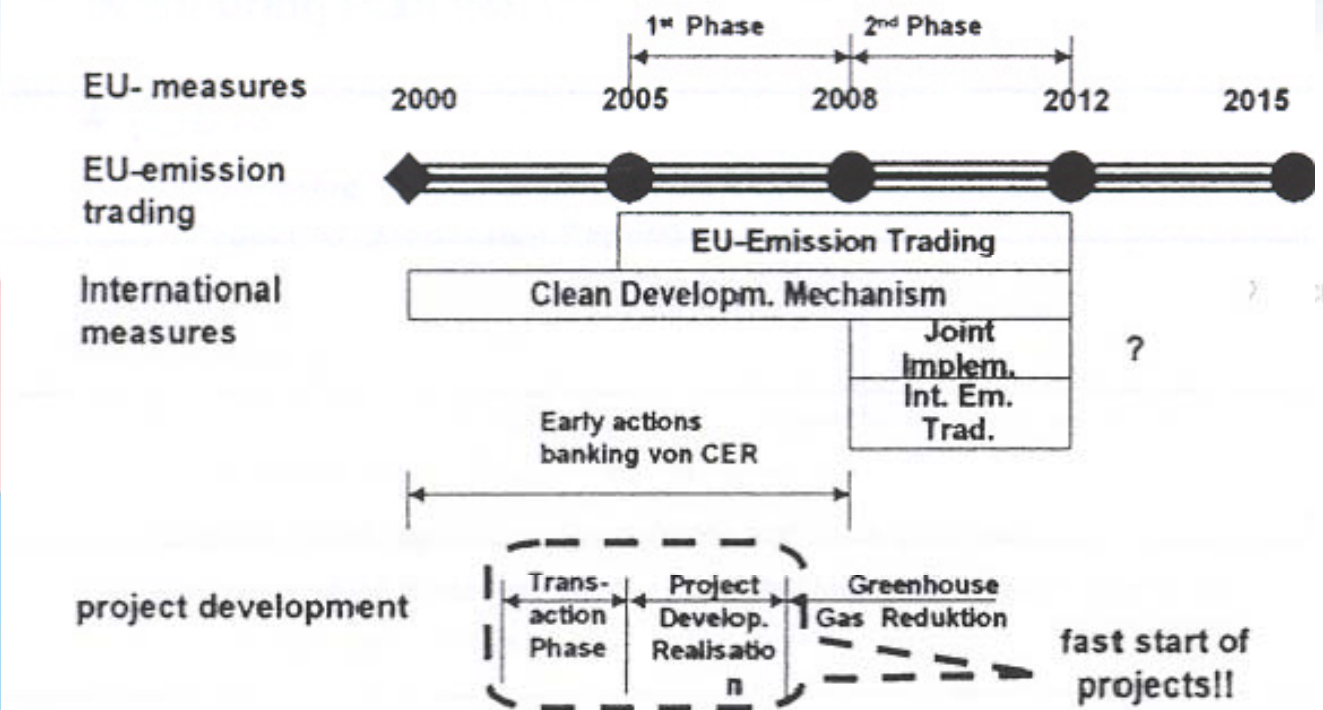
Entry into-force requires ratification by 55 Parties representing 55% of industrialized countries 1990 emissions

- 122 Parties have ratified representing 44.2 % of emissions.
- Russian ratification is critical to meet the 55% trigger



# Current ER supply & demand

Space of time for reaching Kyoto targets



- **European Union(25+ Member States)**
  - EU ETS
  - 2005-2007: EU Allowances
  - **2008-2012: EU Allowances & JI/CDM**
- **Canada, Japan, and other non-EU**
  - 2008-2012 only: Kyoto compliance tools
- **Speculative trading**
  - High risk, low volume



# The Status of the Carbon Market: **Buyers (2002-03)**

- Volume of purchases led by the Dutch (30%) and the Prototype Carbon Fund (26%)
- Japan (23%) and Canada (13%) followed with
- Other EU countries, the U.S. and Australia and New Zealand accounted for small percentages of the remainder
  - markets both Kyoto and non-Kyoto such as EU Emission trading scheme, Chicago Climate Exchange, New South Wales Certificates
- 70 MtCO<sub>2</sub>e traded in 2003 (2.5 times 2002)
  - ~220 MtCO<sub>2</sub>e traded since 1996





## Key Price Determinants

- Kyoto compliant prices vary between USD\$ 3-6
- Guarantee of delivery of registered ERs
  - 42% increase in price if seller takes registration risk
- Viability of underlying project, and liabilities of seller in case it underperforms
- ER delivery time expected: pre or post 2012
- Cost of validation and potential certification
- Host country support
- Additional environment and social benefits



# Who guarantees the environmental credibility ?

**Track 1 JI**

**CDM/ JI(Track2)**

**Host Country**

**Operational Entity(AIE)**

**Host Country KP Compliance**

**Internal procedures for projects**

**(Eligible host Parties may verify ER)**

**Operational Entity**

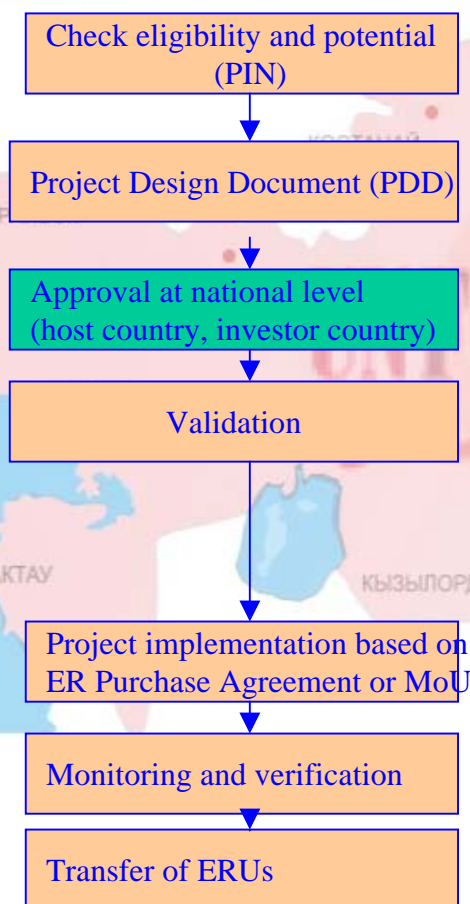
**(Accredited Independent Entity)**

**ER Verification**

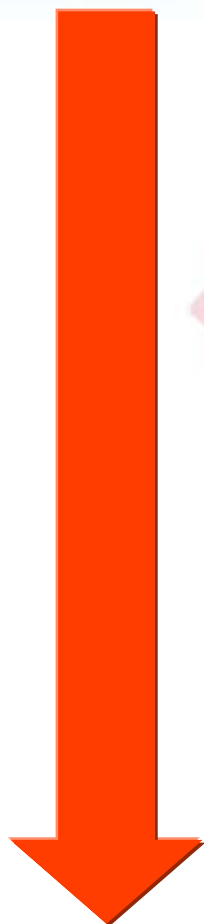
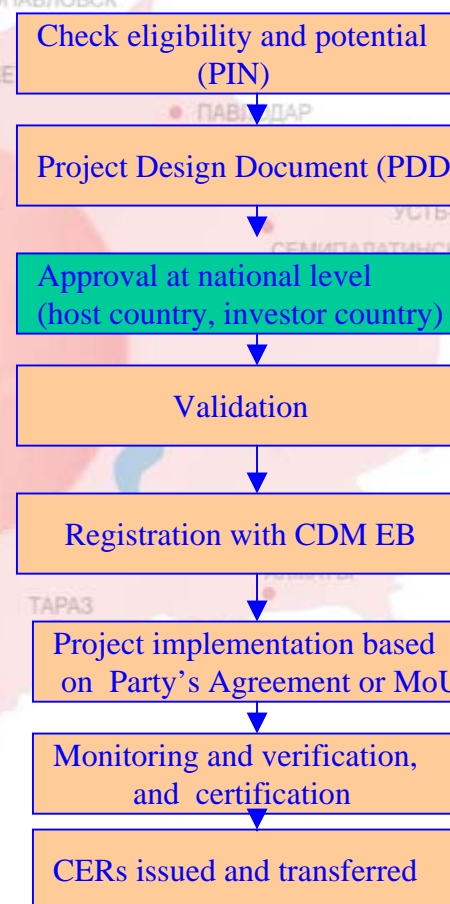


# CDM & JI Project Cycle

## JI project Cycle



## CDM project Cycle







# National Approval: critical issue

**DNA**- official organization ( ministry, committee, agency, etc.) for CDM/JI projects **national approval**

National approval process is not regulated on international level

**National approval** and registration takes place before validation based on PDD or PIN

Recently, **DNA for CDM** are arranged in Germany, Netherlands, some countries of Latin America



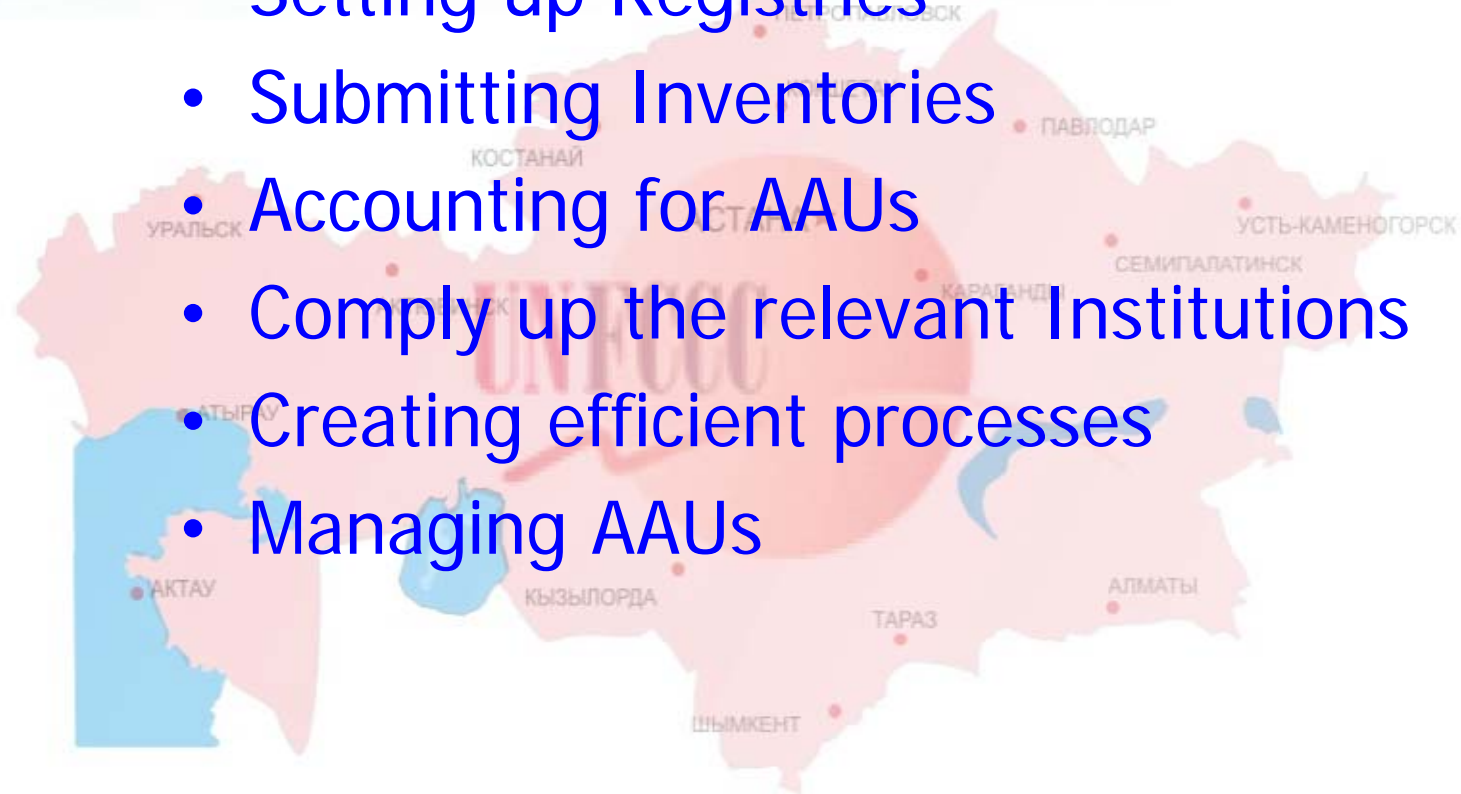
# CDM/JI – Kyoto Criteria(COP7)

- **CDM** Executive Board(EB) established: registration and certification CERS, IE accreditation
- Contributes to the sustainable development of the host country
- Results in emission reductions that would not have happened otherwise
- Generates real, measurable and long-term climate change mitigation benefits
- Approved by Parties involved
- Credits earned from 2000 onward
- Public funding of CDM not to divert ODA
- Afforestation and reforestation projects in CDM: but subject to a cap(1% of base year emissions)
- Special procedures for small-scale CDM projects
- **JI** Supervisory Committee – similar to the CDM EB - to be established at COP/MOP 1 to Verify
  - Projects hosted by another Annex I country
  - Setting up the relevant Institutions
  - Two tracks: depends on level of Party's compliance with the Protocol's participation requirements
  - Results in emission reductions that would not have happened otherwise
  - Generates real, measurable and long-term climate change mitigation benefits
  - Approved by Parties involved
  - Credits earned from 2008 onward
  - An independent verification system also for JI though JISC(track2)



# Challenges for JI Countries

- Setting up Registries
- Submitting Inventories
- Accounting for AAUs
- Comply up the relevant Institutions
- Creating efficient processes
- Managing AAUs





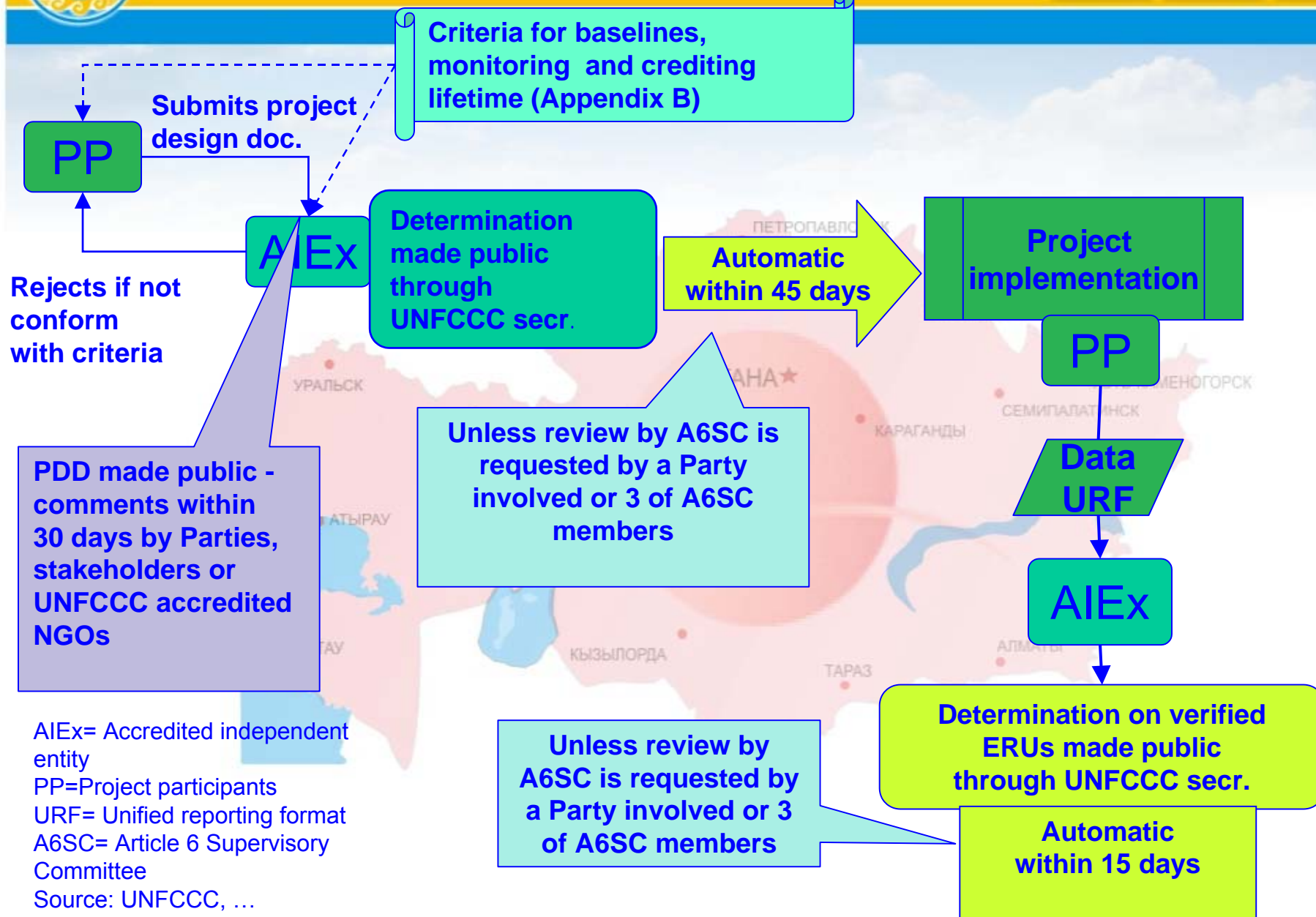
# JI key features:



	Track 1	Track 2
<b>Project design (baseline/ monitoring plan)</b>	National guidelines	Supervisory Committee (take into account work by CDM/EB)
<b>Check project design against requirements</b>	National guidelines (option to use Track 2)	Verification by AIE
<b>Check performance of project</b>	National guidelines (option to use track 2)	Verification by accredited AIE
<b>Transfer</b>	<ul style="list-style-type: none"> <li>• A Host Country may issue ERUs if meets requirements (registry, inventories, AAU accounting)</li> <li>• Choose to verify ERs generated by JI projects in its territory</li> <li>• In addition if track 2 option used: ERUs exempted from CPR limitations</li> </ul>	<ul style="list-style-type: none"> <li>• Only if the Party is in compliance with eligibility requirements (para 21, a, b &amp; d)</li> <li>• These ERUs are exempt from CPR limitations</li> </ul> <p>Verification to be operated through <b>accredited independent entities</b>;</p> <p>Accreditation standards for A6SC (Appendix A);</p> <p><b>Criteria for baseline setting and monitoring plan</b> (Appendix B).</p>



# JI (Track 2) Verification





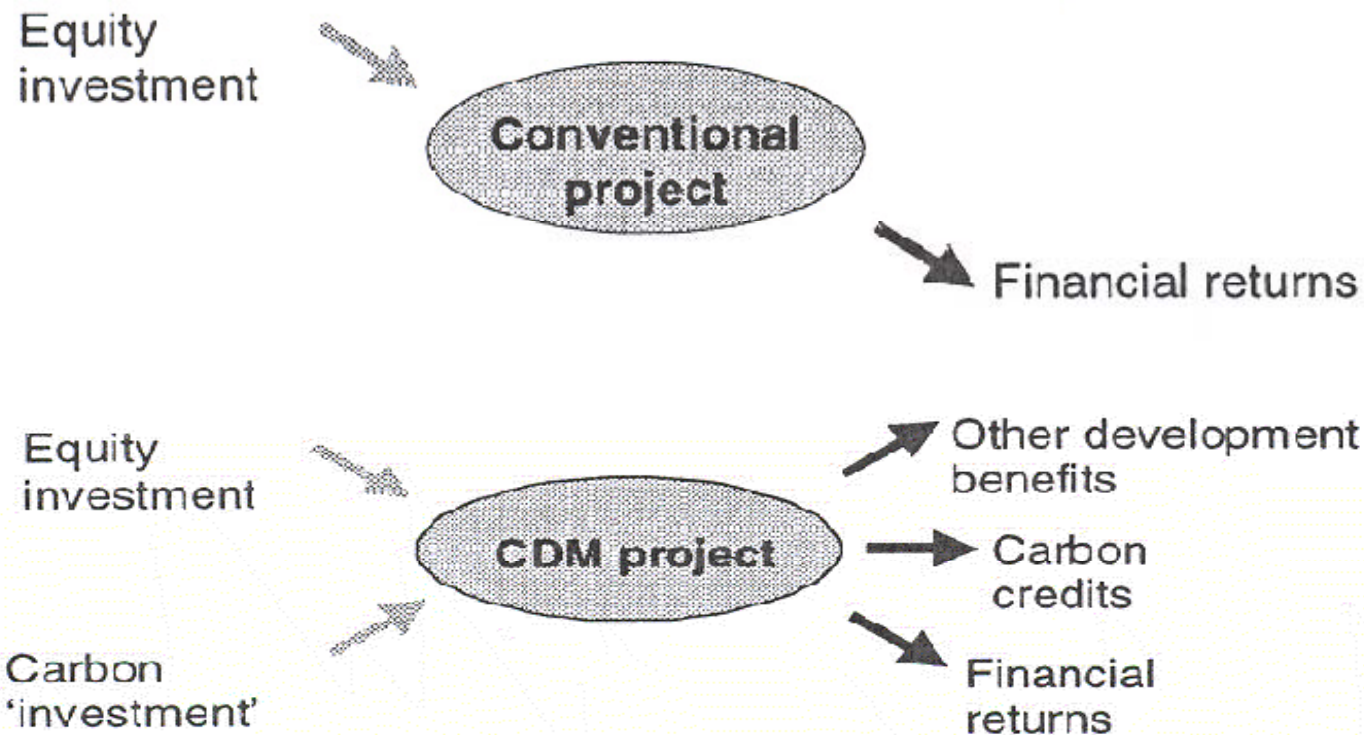


# Determination requirements for JI project:

- AIE to check whether project design:
  - Has been approved by Parties involved;
  - Emission additionality: would not have occurred in the absence of the project;
  - Baseline and monitoring plan in accordance with Art. 6 guidelines (Appendix B);
  - Analysis of environmental impacts.



# Project input & output





# CDM/JI Benefits

- **For business :**

- Reduce overall cost of compliance: credits have monetary value
- Provides opportunities to sell and showcase technologies
- Demonstrates environmental leadership

- **For the host country:**

- Attracts investment in priority sectors
- Provides infrastructure and employment gains
- Provides access to clean technologies
- Improves air quality, energy efficiency & reduced dependence on imported fuel
- Provides potential source of revenue from carbon credits



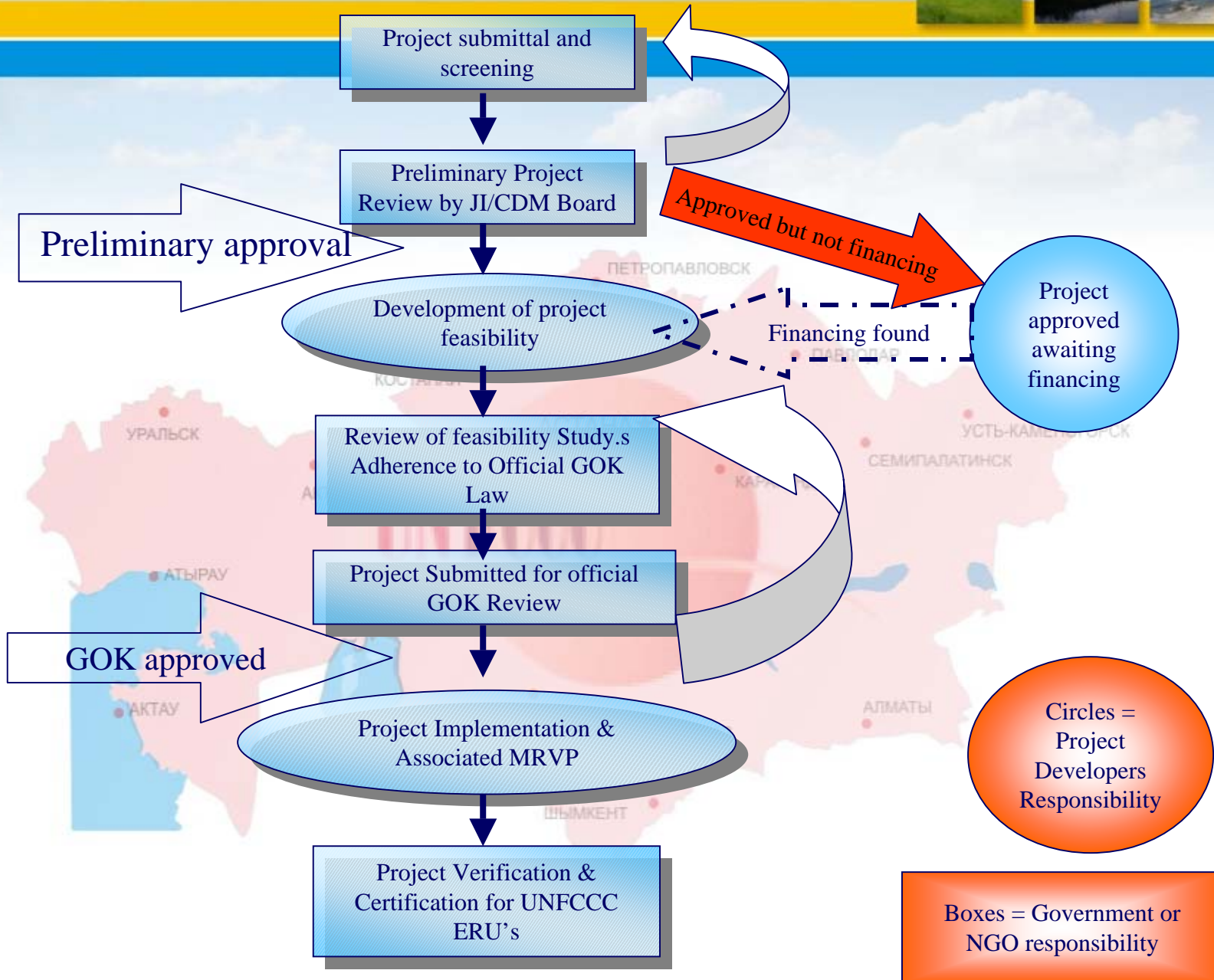
# Kazakhstanian Context

- **Kyoto Protocol is signed(1997), Recently preparation on ratification**
- **IAC established in 2000, four successful meetings(protocols). Two projects approved as CDM/JI**
- **Japan/Kazakhstan model project (JI) launched(2002)**
- **Three pilot CDM projects launched trough CTP programme (CIDA)**
- **Kazakhstan is in a unique situation:**
  - **COP 7 decision on Kazakhstan status: Upon ratification of the KP by Kazakhstan and its entry into force, Kazakhstan becomes a Party in Annex1 for purpose of this Protocol in accordance with Ar.,pr.7 of the KP. The COP recognized that Kazakhstan will continue to be a Party not included in Annex1 for purposes of the Convention**
  - **International competitiveness**
- **Provisional” National rules for CDMJI projects development, assessment and approval by GOK” adopted by MEP order(2002) tested**
- **UPDD as national project format developed and approved by IAC**





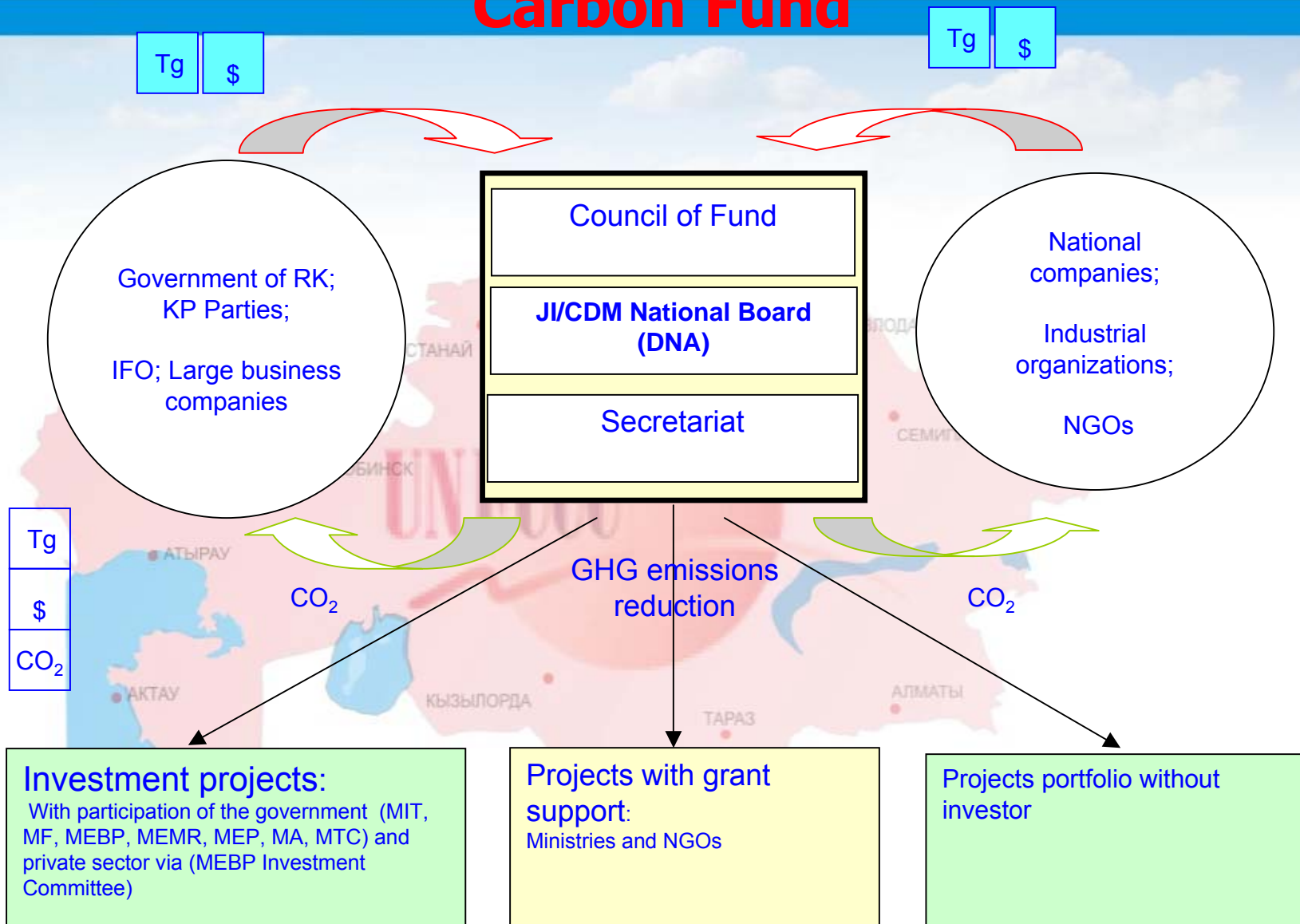
# The Scheme of GHG Project Approval by GoK







# Proposed institutional arrangements- Carbon Fund





# The role and responsibility

- Council of the Fund – supreme administrative body of the Fund at the head of the Chairman. Council of the Fund carries out supervising functions and solves general tasks such as approval of the Charter, Regulations, identification of priority activity trends, formation principles and assets use and so on.
- JI/CDM National Board – executive body can be presented by a Committee of Ministries at the head of the RK Prime-Minister. Establishment of the National office to manage KP mechanisms alongside with its ratification is **the necessary term for a Party** to participate in global market mechanisms<sup>[1]</sup>.

<sup>[1]</sup> FCCC/CP2001/13/Add.2



# Proposed JI/CDM national office

## Primary Functions

- regulating comprised on implementation of assessment process
- approval of GHG emissions reduction projects
- annual activity reporting to UNFCCC Secretariat.

These regulation functions precede verification and certification of projects and should be implemented in accordance with international requirements.

## Addition Functions( not obligatory)

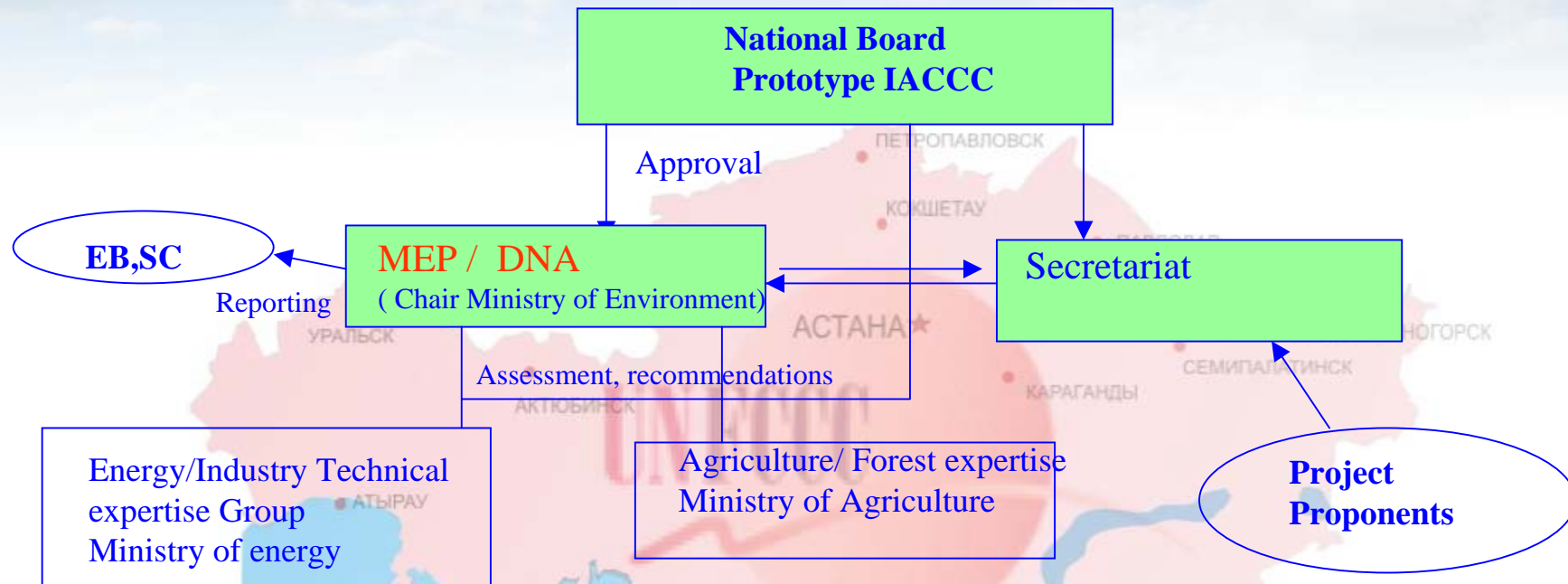
- stimulating capacity and market development

## Secretariat of JI/CDM National office

(proposed to be designated Climate Change Coordination Centre)



# Alternative potential institutional arrangements



- DNA to be accredited and registered by EB& SC& UNFCCC
- DNA functions: screening/evaluation,regulatory
- Secretariat functions: training/promotion; registry for approved projects, website



## Benefits of CDM/JI for Kazakhstan

- Transfer of new sound technologies, facilitate substantial flows of private and public investments into CDM/JI projects;
- Introduction of new conditions for attracting investments and involving national funds (CDM,JI);
- Accumulation of carbon credits or use GHG emission offsets (JI);
- Ensuring stable position at the energy market and economic safety of the country in the process of transition to a market economy
- additional capacities in energy, industry and transport sector
- adequate financing for capacity building;
- Future perspective to participate in IET;
- Direct investments in environmental protection projects

**Facilitation of implementation of Innovative-Industrial Development Strategy 2015!**





## **Benefit of JICDM for project team:**

- Position as first mover in climate change(chances as well as risks)
- International marketing image factor
- Strengthening of core business of every team member
- Strengthening of international sales of our products and services
- New innovative project financing possibility
- Improvement profitability of projects by consideration of avoided environmental costs(small, but decisive improvement of profitability)



## Progress of Japan/Kaz CDM/JI project

- **The MoU between Japan (NEDO) and Kazakhstan was signed on 20 June 2002 in Astana. The parties started implementing the project on construction of a gas turbine cogeneration system with the capacity of 25 MW**
- **Bilateral financial structure Japan&Kazakhstan**
- **During 2008-2012 Kazakhstan will annually transfer its quota of 62 thousand tons of CO<sub>2</sub>, generated as a result of the gas turbine facility operation, to Japan upon MoU**





# Progress of Japan/Kaz CDM/JI project

- **UPDD developed. Testing the national procedures of project approval. Approval at ministries obtained**
- **Baseline Validation by DNV. Other necessary project documentation in development**
- **IAC preliminary approval as JI/CDM project obtained**
- **2003- office arranged in Uralsk city for project implementation**
- **Close cooperation between stakeholders**
- **2004 – Japan technology transfers to Kazakhstan**





# Way forward

- a) **GHG Projections and MAC analysis, definition of national commitments**
- b) **Project portfolio**
- c) **Institutional arrangements: role of DNA and transparent procedures and rules**
- c) **Creation of national register of AAUs/ERUs/CERs/RMUs**
- d) **The Carbon Fund**
- f) **Allowance trading**



# Additional recommendations:

- 1. Information, education and awareness programs should be prepared and supported by the MEP; the proactive role of NGOs is expected;**
- 2. Information dissemination of on CDM/ JI benefits among the industrial management, municipalities and local authorities;**
- 3. Risk mitigation-the key to improved distribution and greater equity;**
- 4. Financial architecture of CDMJI projects-as many "doors and windows" as possible;**
- 5. Last but not least:**
  - removal of subsidies,**
  - investment into energy saving and more efficient industrial technologies and/or**
  - cleaner technologies (e.g. coal-to gas switching) must be quantified and reported internationally.**





# Contact /information ...

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