

Prospects for emissions trading – the case of the Czech Republic

BASE project

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Joint Implementation (I.)

- Czech Republic a host country
- Some experience with AIJ phase (no crediting)
- JI phase started in January 2002
- Interest from investor countries
- PCF WB cooperation

Joint Implementation (II.)

- Methodology prepared (includes administrative procedure for approval of projects)
- Preparation of necessary institutional structures started
 1. Submission of the project according to methodical guideline
 2. Evaluation of environmental, technical and economic aspects
 3. Discussion on MoE working group
 4. Final approval of the transfer by the minister (to be resolved)

First experience

- Methodical guidelines a big step forward, however some problems remained
 - Documentation required for evaluation too complicated and in some cases unclear (especially for foreign investors)
 - Participation of private companies as JI investors not clear
 - Need for more clear definition of responsibilities, rules, deadlines and other formal requirements
 - Connection to availability of “official” information crucial
- Resulted in revision of guidelines (now finished)

Some factual problems

- International agreements as a base for the projects
 - Parties signatories of the Kyoto Protocol / transfer of credits an international agreement dimension
 - Responsibilities for signing of such agreements
 - Private entities ? - Does the JI have to be related to Party in any case ?
- Combining of projects (Portfolio)
 - Difficult to evaluate in a package (different stages of development)
 - However, one of priorities of environmental policy
 - Some possible solutions discussed

Some factual problems (II)

- The search for projects
 - Coupling of project realisators (domestic) and foreign investors sometimes difficult
 - Difficult orientation of domestic realisators (esp. small scale ones, municipalities) in int. rules and requirements
 - Establish a platform where “supply” and “demand” could meet?
- Project financing
 - Cofinancing from domestic and international sources a problem?
 - State funds – problems in case of grants from international funds (GEF)
 - State aid rules (EU)

JI experience – a slight confusion

- Small scale projects difficult to pass JI procedure (in fact out of consideration)
- High administrative costs – especially when compared to revenue (low price for credits)
- International rules and requirements too complicated for project realisators
- Carbon financing very insignificant in comparison to investment costs (current JI will not boost projects) – some additionality problems also indicated
- Assessment of risks
- Big industry projects – potential coverage by EU directive
 - ⇒ **Less projects available then expected**
 - ⇒ **Good projects not available where would be most welcome**

Implementation of the scheme

- Emissions trading generally a perspective economic instrument
 - involvement of firms (business opportunity)
 - learning effect - reductions might be necessary in future
 - necessary administrative structures will be established
- Short time available – number of activities has to be made in parallel
- Some issues still to be solved (combination with JI/CDM)
- Cooperation with industry will be initiated (working group)
- Some partial issues already under discussion
- National allocation plan a key document
- Wider political and expert discussion to be initiated
- Some closer cooperation with other countries – sharing the experience

Selected problems of EU ETS

- Generally - not prepared with keeping a different position of accession countries in mind
- Still in the form of a proposal
- Number of issues still unclear (EU allowance = AAU, CPR issues – domestic instrument – accession countries not part of the EU bubble)
- Registry – will EC provide software?, role of the EU transaction log
- Legal issues problematic – treatment of allowance, VAT
- NAP guidelines – too late (what will EC accept?, overallocation problem)
- Some proposals of the Parliament make things even more unclear (inclusion of chemistry and AI sector)
- Reliability of data - monitoring guidelines

Conclusions - next steps in CR

- **Joint Implementation:**
 - Simplify the procedures as much as possible, finish preparation of Czech framework
 - Looking for ways how to get over factual problems
 - Discussion about alternative to JI to be started soon (project-based ET, recycling of part of AAUs sale into projects)
- **Emissions trading:**
 - EU ETS a key element – currently a priority
 - ET WG to be established
 - wider expert and political discussion to be started
 - communication with firms necessary
 - UN framework ?