Market potential for AAU trading

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GIS – the realities

- It takes time to set up GIS schemes
- Complex agreements have to be reached:
  - What is an AAU?
  - Who owns an AAU?
  - How to establish the right to transfer AAU?
  - What will be the institutional set-up?
  - Who will be in charge?
  - When will be the transfers made?
  - Should there be a fund or spot trading?
  - How to determine the price?
  - Are they taxable? Are the transactions taxable?
  - What will be acceptable greening?
  - How to monitor greening activities? How to ensure accountability without incurring high transaction costs?
Difficult decision-making

- GIS involves complex institutional arrangements
- Ministries of Finance, Economy, Environment have to be involved
- Other agencies might want to be involved too:
  - Ministries of energy,
  - Energy efficiency agencies,
  - Innovation and technologies agencies.
- Legal and institutional issues are impossible to resolve without changes or adjustments of laws
  - Parliament involvement necessary
- GIS not a high priority for the decision-makers
- Little understanding of the market
- Inability of learn from experience of others
To be or not to be?

- Institutional instability
- Political instability
  - Political support
  - Government role in achieving eligibility
- Conflicts of stakeholders
- Interference of marginal interests
  - Institutional structures are easy to shake
  - Immense pressure on public servants
- Permeability of the legal system
- Lack of enforcement
- Lack of transparency
Is there a market?

- There is not enough demand for AAUs
- There are only few potential buyers
  - Japan, some European states
  - Canadian demand under question
  - cannot be used by European companies:

- What should the price referenced to?
  - **Buyer**: reputation risk, compliance cost, **eligibility** risk
  - **Seller**: other Kyoto units, sovereign guarantee, GIS incentives
Future Outlook

- AAUs and GIS will come to the market but not immediately
- Initial transfers are likely to be small
- Domination of sovereigns
- Need for sellers to give GIS more priority
- Likely last-minute settlements
Thank you for your attention!

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