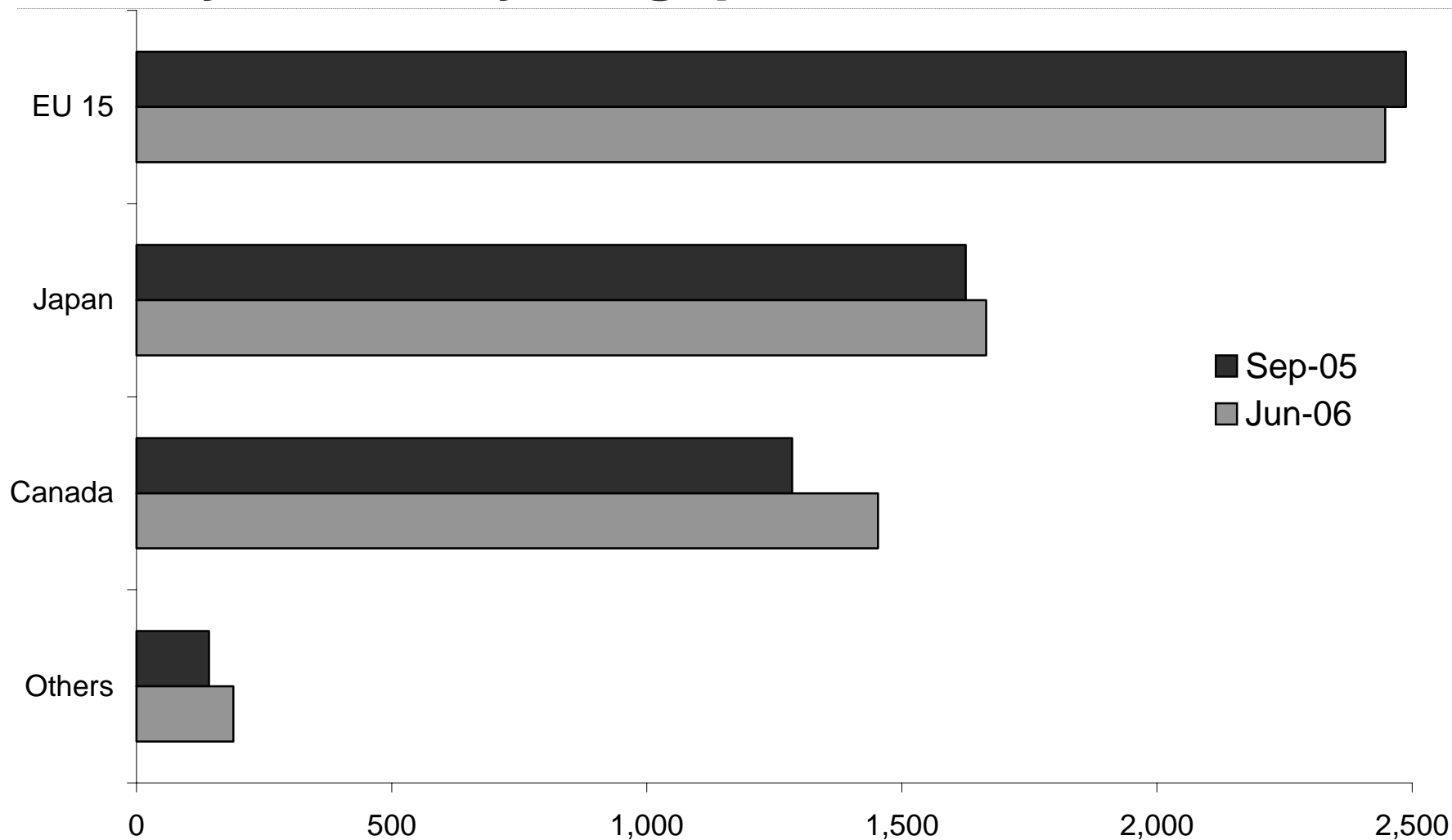

Market potential for AAU trading

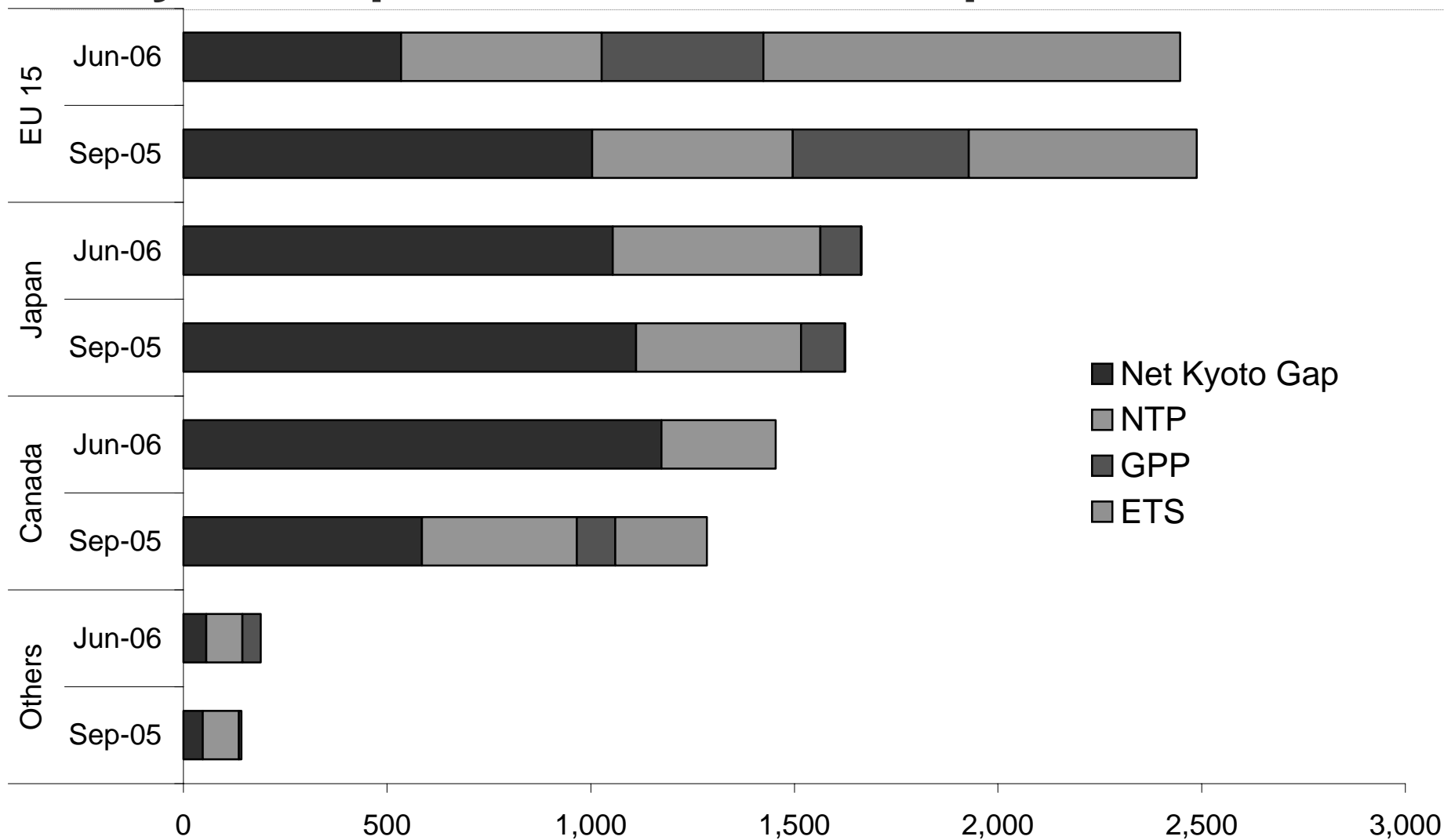
Olga Gassan-zade

Point Carbon

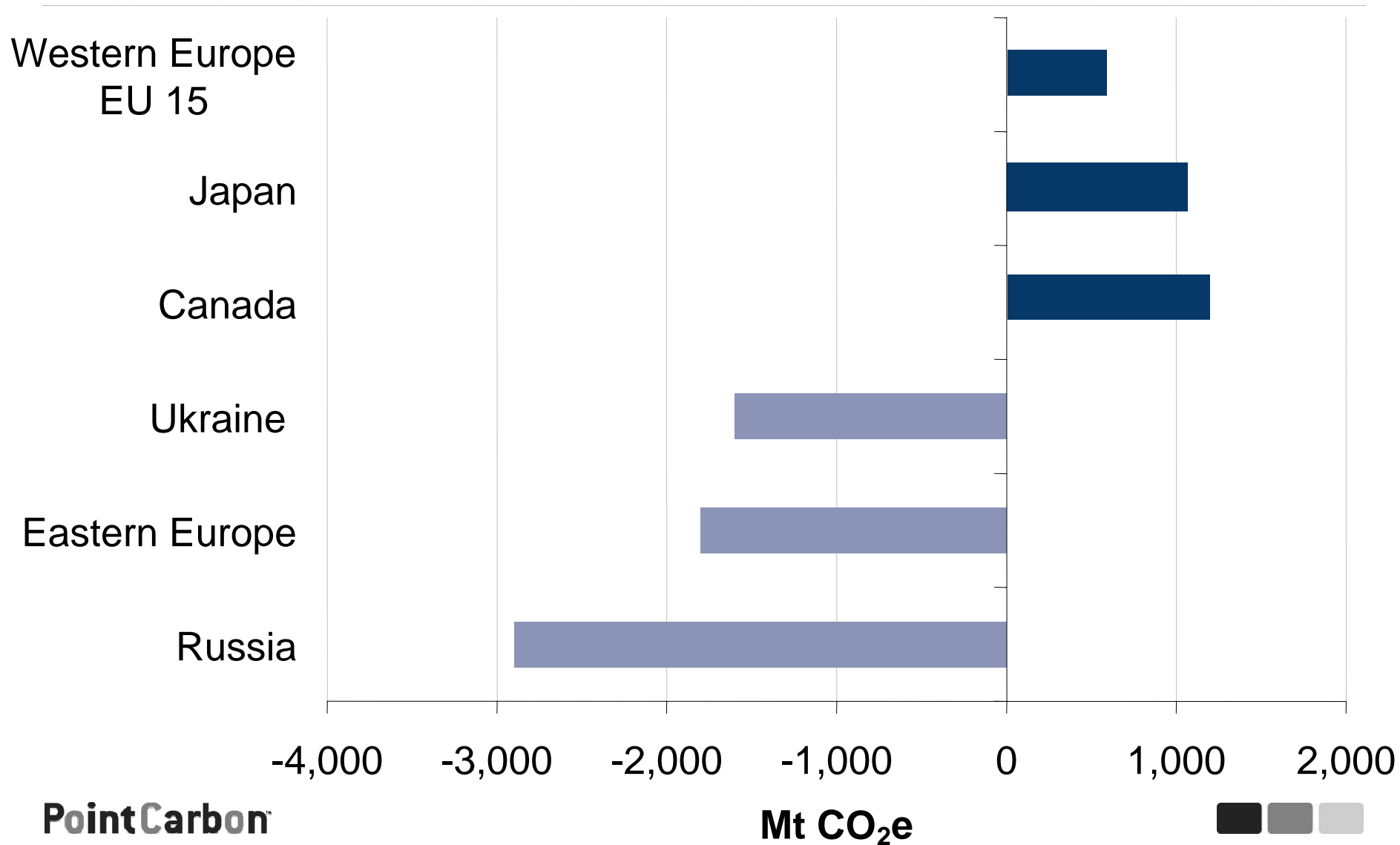
Five year net Kyoto gaps



Kyoto Gaps: 2005 – 2006 Comparison



AAU supply and demand



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 be 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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