

Emissions Trading Overview: Opportunities for Investors in Ukraine

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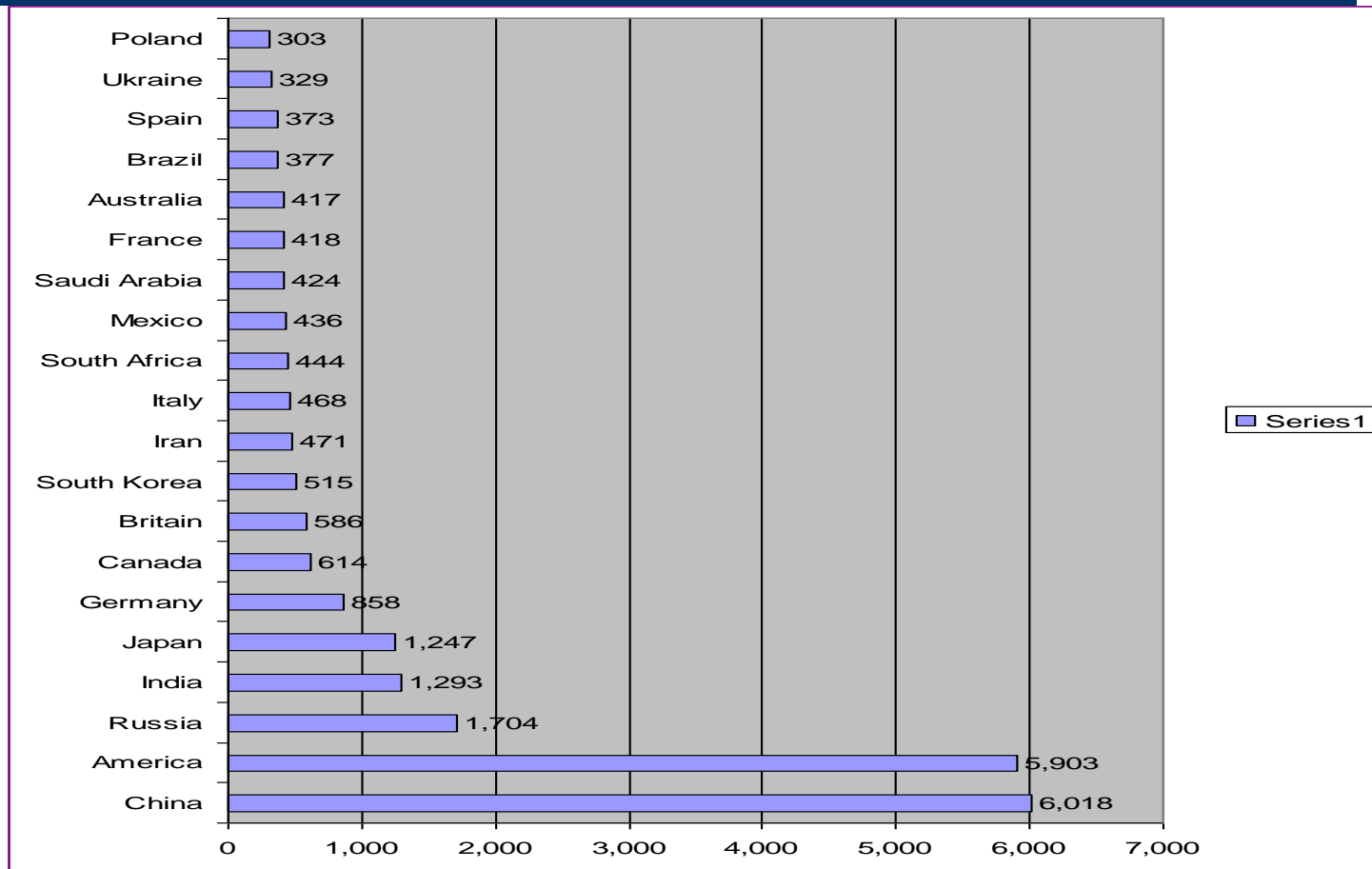
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Outline

- ✓ UN Framework Convention on Climate Change
- ✓ Kyoto Protocol
- ✓ Emission Trading and Green Investment Scheme
- ✓ Joint Implementation Mechanism
- ✓ Position of Ukraine in Carbon Market
- ✓ Opportunities for Investors (Our role)

TOP 20 CO2 EMITTERS PER CAPITA

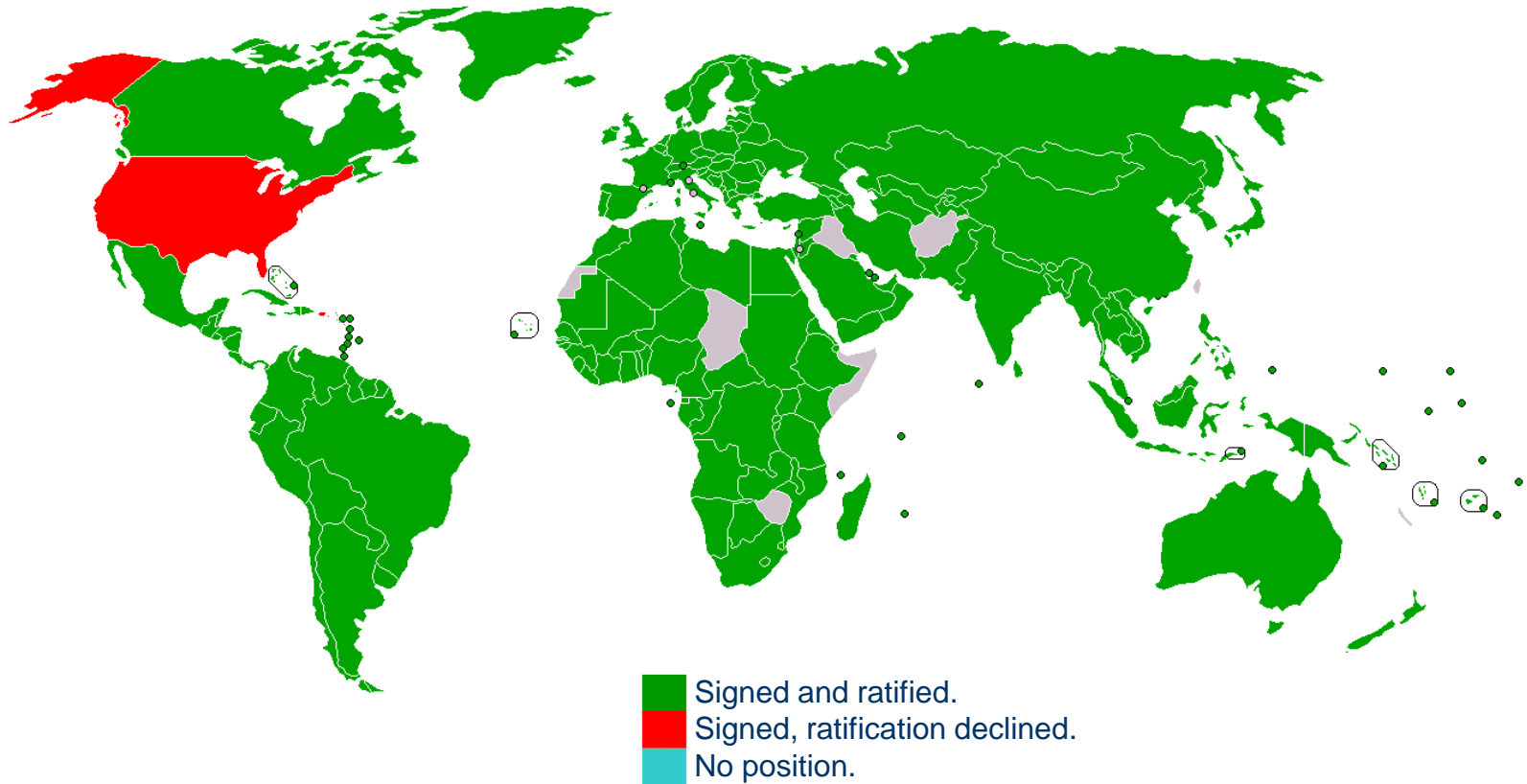
METRIC TONNES PER PERSON



UN Framework Convention on Climate Change (UNFCCC)

- entered into force on 21 March 1994, with 192 countries having ratified (Ratified by Ukraine on 29 October 1996).
- framework for governmental efforts to tackle the challenge posed by climate change and to mitigate it globally.
- climate system is a shared resource affected by industrial and other emissions of carbon dioxide and other greenhouse gases.
- UNFCCC **encouraged** industrialized countries to stabilize GHG emissions, while the Kyoto Protocol **commits** them to do so.

Kyoto Protocol Participation Map 2009



The Kyoto Protocol

- **Kyoto Protocol**

- Protocol to the UNFCCC adopted on 11 December 1997, and entered into force on 16 February 2005 (Ratified by Ukraine on 4 February 2004);
- 184 countries (deposited instruments of ratification, accession, approval or acceptance) as of 14 January 2009 (USA signed but not ratified).

- **Parties**

- Annex I countries: 40 industrialized countries including Ukraine listed in Annex I to UNFCCC;
- Annex B countries: 40 countries including Ukraine listed in Annex B to Kyoto Protocol with their specific reduction targets.

- **Reduction Target**

- Annex I countries ensure that their aggregate anthropogenic CO₂ emissions do not exceed their assigned amounts, described in Annex B and reduce their overall emissions by at least 5% below 1990 levels in the commitment period 2008 to 2012.

Targets of Kyoto Protocol Annex B countries

Country	Target (1990** - 2008/2012)
EU-15, Bulgaria, Czech Republic, Estonia, Latvia, Liechtenstein, Lithuania, Monaco, Romania**, Slovakia, Slovenia, Switzerland, Belarus	-8%
US	-7%
Canada, Hungary, Japan, Poland	-6%
Croatia	-5%
New Zealand, Russian Federation, Ukraine	0
Norway	1%
Australia	8%
Iceland	10%

Kyoto Flexible Mechanisms

- **Emission Trading (Art.17 of KP)**
 - Annex B countries may trade their Assigned Amount Units (AAUs) with each other to meet their targets
 - sets framework for the Green Investment Scheme (GIS) as government to government trade
- **Clean Development Mechanism (Art. 12 of KP)**
 - projects hosted in non-Annex I country
 - generate Certified Emission Reductions (CERs)
 - assist non-Annex I countries in achieving sustainable development
 - CERs Issued and registered by UN CDM Executive Board
- **Joint Implementation mechanism (Art. 6 of KP)**
 - projects hosted in another Annex I country
 - generate Emission Reduction Units (ERUs)
 - reducing anthropogenic emissions by sources or enhancing anthropogenic removals by sinks of GHG
 - ERUs issued by hosting country government
 - Track 2 – registered by JI Supervisory Committee (JISC)
 - Track 1 – National registration

Position of Ukraine in Carbon Market

- one of the main potential suppliers of AAUs:
 - Estimated to have about 1-1,5 billion AAUs surplus;
 - subject to Green Investment Scheme (GIS) requirements;
 - GIS requires further legal development, specifically on government procurement and status of inter-departmental working group.
- does not take part in CDM and issue CERs:
 - as Annex 1 country cannot host the CDM projects;
 - has neither passed the necessary legislation nor established institutional framework to assist developing countries;
 - because of surplus of AAUs and necessity for ERUs it is not commercial viable.
- N.1 in PointCarbon rating of JI hosts
 - reductions may not be generated if project is not implemented;
 - 33% share of all JI projects globally;
 - practice of setting the floor prices for carbon credits generated in Ukraine.

Green Investment Scheme in Ukraine

- **Legal framework:**
 - Resolution of the CMU of 22.02.2008 No. 221 adopting the Procedure for consideration, approval and implementation of GIS projects during Kyoto period
 - Designated authority: National Environmental Investment Agency of Ukraine (NEIA) develops further regulations (expected in 2009)
- **Current procedure:**
 - Projects are submitted to NEIA;
 - Applicants: executive and local self-government authorities, legal entities and natural persons (registered entrepreneurs);
 - Projects design documents shall be verified by independent accredited organization (NEIA defines the list);
 - Criteria for project eligibility are defined;
 - Inter-departmental working group is set to examine the projects;
 - Government Procurement Law and international treaties apply to the applicants.

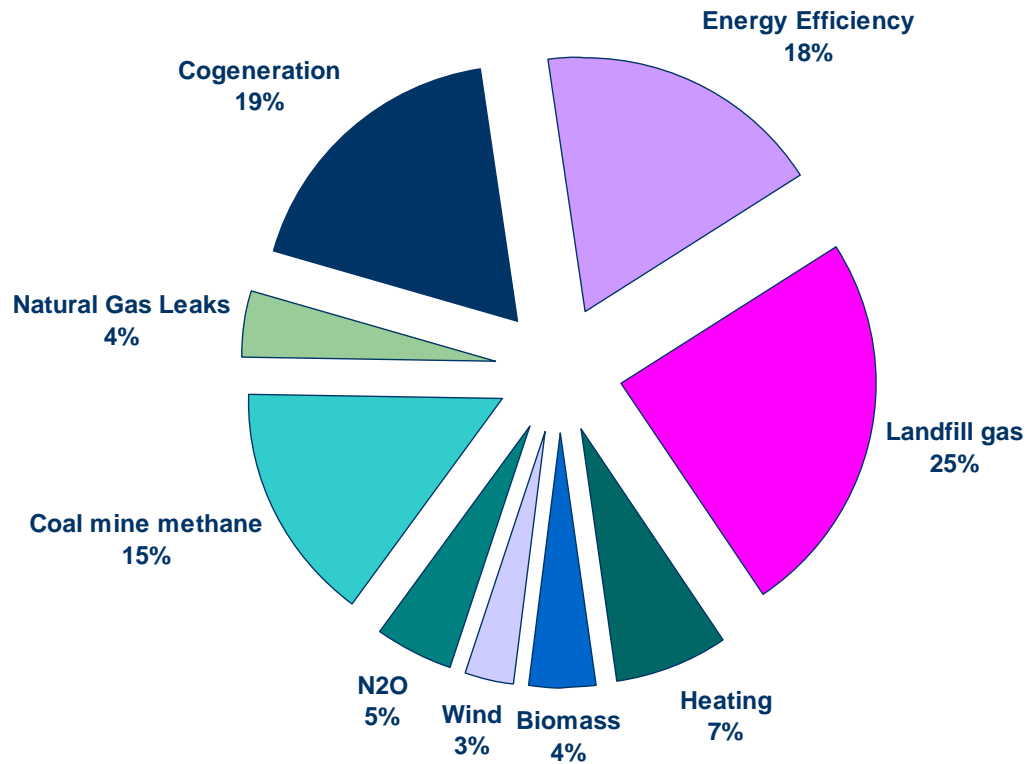
Joint Implementation in Ukraine

- **Legal framework:**
 - Procedure for JI projects development, consideration, approval and implementation, adopted by the Resolution of the CMU of 22 February 2006 No. 206;
 - Requirements to the JI projects documents, adopted by 2 NEIA Orders of 25 June 2008 No. 32 and No. 33;
 - Track 1 procedure, adopted by NEIA Order of 18 December 2008 No. 79.
 - Designated authority: NEIA
- **Current procedure:**
 1. Project proposal submitted to NEIA;
 2. Letter of endorsement issued by NEIA that approves development of project design documentation (PDD);
 3. PDD submitted for determination to independent accredited authority;
 4. Letter of approval issued by NEIA;
 5. Letter of endorsement issued by the country of buyer;
 6. Registration by NEIA (+ JISC if Track 2);
 7. Annual reporting by the project owner;
 8. Verification by the independent accredited authority;
 9. NEIA issues ERUs into the account of the seller in Ukraine's National Registry;
 10. NEIA transforms ERUs into AAUs and transacts them to the account of buyer through the International Transaction Log (ITL).

JI projects in Ukraine

- JI has both Track 1 and Track 2
 - Track 1 – registration by NEIA; national/international determination and verification;
 - Track 2 – registration by JISC; international determination and verification.
- JI recognizes:
 - “early crediting” - issuing credits generated before the beginning of the first Kyoto crediting period of 2008-2012;
 - “late crediting” – allowing applications for credits to be generated after 2012.
- about 40 JI projects hosted by Ukraine (various stage of development and implementation) with potential of generating about 60 million tones CO2 reductions by 2012
- 3 projects under Track 2 passed the final determination
- 5 projects under Track 1 submitted by NEIA
- hosts the first JI project approved by UN JISC
- first transferred ERUs – 1.4 million ‘early’ ERUs to the Japanese registry for the Zasyadko project (immediately after the completion of the connection with the ITL in October 2008).

Types of JI Projects in Ukraine



Our role in JI and GIS projects

- transactional and tax scheme of the projects for the purpose of obtaining tradeable ERUs and AAUs
- legal advice on the fulfillment of conditions of the Kyoto Protocol in Ukraine
- due diligence investigations on business and operations of target Ukrainian industrial company
- drafting and/or reviewing of various project agreements, *e.g.*, joint-venture agreement, ERPA
- legal assistance with the obtaining of various approvals, licenses and permits from the state agencies

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