



WORKSHOP REPORT: Carbon Financing Prospects for the Republic of Belarus

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Introduction

The International Workshop on “Carbon Financing: Prospects for Utilization in National Climate Change Mitigation Policy” was held in Minsk on 19-20 November 2007. The workshop was organised by the Organisation on Security and Cooperation in Europe (OSCE) and the United Nations Development Programme (UNDP) project “Capacity Building for Implementation of flexible mechanisms of the Kyoto Protocol in Belarus”. This was the second workshop in a series and its intention was to show the progress of the UNDP project team, to explain the official position of the Belarusian delegation before the United Nations Framework of Climate Change Convention (UNFCCC) conference in Bali, and also to present a number of projects to potential investors. Participants consisted of experts from various countries, the local representatives of the UNDP, the Belarusian government and the UNFCCC, as well as project developers and potential investors.

Latest developments

The Republic of Belarus initiated procedures for amending Annex B to the Kyoto Protocol to the UNFCCC in February 2006. However, the acceptance of this amendment is still pending, as it requires the approval of 75% of the Kyoto Protocol parties. There has been little progress towards ratification. Belarusian officials have received feedback from various countries regarding the amendment and expect countries in Eastern Europe, Asia, Latin America and Africa to ratify it.

Mr Apatsky, the first deputy minister of natural resources drew attention to the progress Belarus has made with the implementation of the Kyoto Protocol. He emphasised that Belarus has potential and willingness to contribute to global climate change mitigation which is considered as one of the Belarusian national interests.

According to Mr Tarasenko of the Ministry of Natural Resources, (the focal point of the UNFCCC), during the last few years Belarus has made significant progress developing a legal basis and infrastructure for Joint Implementation, and establishing the institutions required for

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national eligibility. “The National climate programme for 2008-2012” anticipates an emission reduction of some 11 MtCO₂e by 2012. Also “The National Strategy on greenhouse gas (GHG) emission reductions and sinks 2007-2012” has been adopted. The main mechanisms of carbon financing have been designed: Joint Implementation (JI) project cycle, Green Investment Scheme (GIS) and voluntary reductions. But the process of ratifying the Belarusian Annex B amendment could take too long for Belarus to participate in the Kyoto mechanisms during the first commitment period. If the Belarusian amendment will not be approved in 2008, Belarus is planning to participate in the carbon market by implementing Voluntary Emission Reduction (VER) projects.²

The UNDP project manager Mr Grebenkov presented the legal framework for JI projects, GHG registry, and a list of potential JI projects and Project Idea Notes (PIN). A draft version of the Presidential Decree on state regulation of external trade of carbon units creates a new Department of Climate Change in the Ministry of Natural Resources, establishes the procedure for considering and monitoring of VER projects, and anticipates the formation of the Belarusian Carbon Fund and the introduction of the Carbon Levy (tax). The surplus of Assigned Amount Units (AAU) is considered to be an asset of the country, and the experts and the government agreed that it should be distributed over two commitment periods taking into consideration the political uncertainty of the second commitment period as well as the needs of the national economy.

Open questions

As it is still possible that Belarus could host Track 2 JI, Belarus is planning to start by implementing VER projects and, if possible, transfer the VER units into Emission Reduction Units (ERUs). However, it remains unclear if this would be possible. The legal framework for establishing VERs in Belarus is under development. According to the draft legislation, two sets of procedures for the VER projects are considered – with or without converting them into ERUs. The developers anticipate an “easy” cycle for the latter. The project cycle for VER projects planning to convert reductions to ERUs at a later stage is similar to JI projects, as the Belarusian projects are meant to comply with the quality requirements for JI Projects. Issuing VERs leads to the cancellation of AAUs under most VER standards, which may cause a problem since Belarus currently has no AAUs. JI and VER projects are seen as equally important by the Belarusian government.

The legal nature of the carbon units (AAU, ERUs, Removal Units (RMU), etc) as well as their ownership are yet to be established. According to the draft of the Presidential Decree (Clause 1.2): “The exclusive rights to trade the carbon units on the international market belong to the State”. However, it remains unclear which bodies, agencies or economic agents

² VER is the emerging market for carbon credits outside the Kyoto Protocol compliance regime. The voluntary market may at present be smaller and less liquid than the compliance market; however, the wider scope of the voluntary market, and the growth led by the private sector means that it has a promising future.

are allowed to possess carbon units (especially ERUs) within the country. The tasks assigned to different agencies are not clear for the outsiders. Also some elements of the project cycle, especially the “seller-buyer” communication, should be defined more precisely. The process of the selection of GIS projects has not been established in Belarus issues such as timing, eligibility of participants and the criteria for project selection remain unresolved.

A Carbon Fund will be formed within the Budget Fund of Nature Protection but currently there is no preliminary assessment of the needs of the Belarus Carbon Fund.. It is planned to finance various GHG reduction schemes, GIS, activities of the Department of Climate Change on selection, preparation and monitoring of the GHG reduction projects, registry accounting, international cooperation, etc. The main sources of income of the Fund will be the revenue from the sale of carbon units, state duty for the registration of JI projects or VER projects in the National registry of carbon units, a Carbon Levy, and others. The Carbon Levy would be recovered from the total price of carbon projects. The introduction of the Carbon Levy and the registration fee for projects would increase the costs.

There have been some proposals to establish a mechanism of “state guarantees” that would secure project implementation and ensure executive discipline. There are also plans to lower transaction costs, cut down bureaucratic procedures, and plans to involve international organisations as brokers and mediators in the carbon trade in Belarus.

Potential projects in Belarus

Currently, seven PINs have been finalised and four Letters of Approval have been issued. In addition to this, 45 draft PINs have been selected and 2 draft Project Design Documents (PDD) developed. The total volume of these projects now accounts for some 13 MtCO₂e. Priority areas of project implementation in Belarus include energy efficiency, renewable energy, fuel switch, methane capture and landfill gas flaring. Energy security is a key issue for Belarus. The Belarusian energy consumption is growing due to the economic growth, and gas constitutes the main share of the energy balance. The Belarusian government is working to increase the use of renewable local energy sources and to improve energy efficiency. The government keen to promote investments and implement new technologies in the energy sector. If gas prices continue to grow, Belarus may have to switch from gas to coal and this would contribute to the GHG emissions of the country. The Belarusian government has also recently approved the construction of a nuclear power station.

The current project pipeline in Belarus includes projects focussing on energy efficiency and energy saving, biomass, biogas, other renewable sources and waste water. A number of projects have already been implemented in Belarus as follows:

- UNDP-Global Environment Facility (GEF) Biomass Energy (investment projects converting boilers using fossil fuel to heat-only boilers and/or CHP units fueled by biomass),

- UNDP-GEF Public Sector Energy Efficiency (investment projects with partners in state enterprises and municipal utilities),
- UNDP-GEF Peatlands Restoration (restoration of 17 drained and degraded peatlands (total area - over 40,000 ha)),
- World Bank Social Institutions Retrofitting Project (supported energy efficiency improvements in 600 social sector facilities, schools, healthcare and retirement homes),
- World Bank Post-Chernobyl Recovery Loan (supported energy efficiency improvements and fuel switching to cleaner energy in schools, hospitals, and orphanages in the Gomel, Brest, and Mogilev regions)

Some delays in project implementation have occurred, partly caused by the fact that potential investors are waiting for the ratification of the Belarusian amendment and have adopted a “wait-and-see” position. Other factors that inhibit foreign investment in Belarus include the awareness of the bureaucratic barriers and the suspicion that the middle level officials lack expertise; only a few representatives from the local councils were present at the workshop. Some of the suggested projects that reduce emissions developed in Belarus have been already included in the state programme/strategy and some others are being considered for inclusion. This would cause problems with additionality.

Views and recommendations of project developers and potential investors

One of the main topics discussed at the workshop was whether JI could be implemented in Belarus in the near future. It seems unlikely that the Belarusian Annex B amendment would be ratified by 2008. It was recommended that Belarus should continue its diplomatic efforts in the context of the post-2012 negotiations.

Investors regard Belarus as a “late mover”, which is entering the market fast and has a promising sustainable project pipeline. The strong commitment of the government is considered to be a benefit. The country has designated national authorities with strong competence and commitment to JI and to Kyoto, as well as technically skilled personnel. Also, inter-ministerial cooperation supports project implementation. Centralized decision-making has been considered to be an advantage so far, and the geographical position of Belarus close to the European market is seen as beneficial.

At the moment Belarus focuses on the voluntary reductions market where the country is in a good position. There are various types of projects and a rapidly growing demand in this market. Climate change policy is supported at the national level, carbon projects are not considered as too risky because the infrastructure has been developed and approval procedures have been adopted. There are no strict requirements on additionality, however, this depends on the standard chosen. Belarus should actively market its developed PINs to potential buyers of VERs.

Also problems have been reported. The risk with the ratification of the Belarusian Annex B amendment is considered to be serious. Investors feel uncertain of the corporate management practices in Belarus. Awareness of carbon finance is low as project owners and middle level officials lack expertise in the field of carbon financing. It is also a disadvantage that most projects are small and geographically scattered.

In order to realise the potentials of the carbon market in Belarus, investors recommend the following:

- Simplifying national procedures
- Educating project owners on JI and related benefits
- Promoting local expertise in project development and encouraging international cooperation with validators, buyers and investors
- Seeking international partners early to take advantage of available expertise and experience in JI
- Getting local banks interested in the opportunities of financing Clean Development Mechanisms (CDM) projects
- Maximizing the number of projects instead of the price of credits
- Reviewing the legal framework for foreign investments.

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