

30.05.07 Carbon market gears up to trade Russian credits

Buyers and sellers are gearing up to trade Russian carbon credits after Moscow this week signed key legislation that will allow Russia to start approving Kyoto projects.

Russia is widely tipped as the major supplier of carbon credits from the Kyoto Protocol's joint implementation (JI) mechanism, which allows carbon credits to be generated from emissions reduction projects in countries that have a target under the Kyoto Protocol.

Prime Minister Mikhail Fradkov on Monday signed the long-awaited legislation, though the procedures for approving JI projects will not be published until later this week.

"It is very positive that the Russian JI legislation has finally been approved, although we have not seen the detailed contents. Everyone can start moving now," said Marcel Hanakam, senior project manager for Russia at 3C Consulting.

3C Consulting, which acts as investment adviser for the Luxembourg-based fund Climate Change Investment 1 S.A., now expects to do business in the Russian market. "Russia is one of our priority areas, and we will add some Russian projects to our portfolio," Hanakam told Point Carbon.

The project pipeline in Russia has been somewhat hampered by the lack of regulatory certainty. So far, 25 projects have been submitted to the JI supervisory committee, the UN body administering JI, for comments.

The projects have the potential to generate a total of 79.2 million carbon credits, out of which 11.8 million are for the period after the Kyoto Protocol's first commitment period runs out in 2012.

"I think the projects from Russia that have already been submitted to the JISC will finalise their emissions reduction purchase agreements (ERPAs) first. We will definitely see the first ERPAs in place in 2007," Hanakam said.

"Russia certainly has the potential for a large number of contracts to be signed this year, but their effectiveness will remain to be depending on both JISC and Russia's procedures," said Jan-Willem van de Ven, head of the secretariat at the Multilateral Carbon Credit Fund (MCCF), a €165-million investment vehicle run by the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB).

"We are very happy that this market has been unlocked. EBRD's and EIB's clients have been interested in JI, but they have been waiting for a political signal that it is ok to do JI. That signal has now been given," van de Ven said.

Sellers also see the legislation as the green light to move. "Density of purchasers are bound to increase in search for good quality projects," said Morten Prehn Sorensen with the Russian Carbon Fund (RCF).

RCF is an originator and developer of JI projects in Russia and the Commonwealth of Independent States (CIS), with a potential 140 million credits in its portfolio.

However, Prehn Sorensen cautioned that buyers should not expect to easily access projects that will start generating credits immediately.

"Only a very limited number of projects are on track to be online from the beginning of 2008. Origination and development will surely move into another gear, but it is fair to say at this stage that awfully many parties will find themselves awfully late," he told Point Carbon.

Johan Moss, a managing director at project originator and developer Tricorona Climate Change Management, said the legislation was a signal "everyone has been waiting for." But he pointed out that uncertainty remained until actual project approval procedures have been made public.

Prehn Sorensen agreed. "Operational details still have to be spelled out and approvals taken through the process before the market gets a firm basis," he said.

Several draft versions of the procedures have been circulated. Still, investors are keen to know whether Russia will cap the amount of carbon credits that can be generated through JI, as well as which project types will be approved and other details that will determine the credit flow out of Russia.

"We need to see if any major changes have been made from the December draft. We will take a close look to see if there are any quotas for different sectors and it also has to be checked if there is anything in relation to economic criteria for the project host or the project investor," Hanakam said.

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