regulation that were developed in different countries to respond to perceived weaknesses in traditional ROR regulation. It provides different types of inducements and penalties that encourage an operator to meet regulatory goals.

Today, price cap (PC) regulation became the preferred form of rules-based price regulation around the world. PC regulation uses a formula to determine the maximum allowable price increases for a regulated operator's services for a specific number of years. The formula is designed to permit an operator to recover its unavoidable cost increases (for instance, inflation, tax increases) through price increases. It requires the operator to lower it's prices regularly to reflect productivity increases that an efficient operator would be expected to experience. PC regulation also reduces the possibility of regulatory intervention into micro-management and protect consumers and competitors by limiting price increases. The duration of the plan should be sufficiently long to allow efficiency incentives to be acted on.

UKRAINE SHOULD DEVELOP A PILOT EMISSIONS TRADING PROGRAM

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There are two general models for environmental regulation. One is called commandand- control (or an administrative form of regulation) and the other is called marketbased. The latter is the foundation for so-called emissions quota or credit trading systems.

It is well known that economic incentive-based approaches to environmental and energy polices can provide good outcomes for the public and for the private sector. Since 1976, there has been more than $10 billion in cost saving in the United States due to the use of these trading concepts.

Ukraine could become one of the largest suppliers of emission credits and allowances for the international GHG reductions market. It is the eighth largest source of GHG emissions in the world. Ukraine will be able to realize this potential only if it develops the

capacity and institutions needed to deliver marketable GHG credits (ERUs) and GHG quotas (AAUs).

The history of emissions trading is filled with the use of pilot activities that demonstrate the viability of certain trading mechanisms.

There are many potential experiments that could be undertaken to begin transplanting credit and quota-based system from the West into the emerging market economy of Ukraine. One version would lead to an internal, domestic GHG trading program. Another would lead toward an international trading system. A third would be both domestic and international in nature.

There are a variety of good sites to begin with. Donbass is probably the best site but Kyiv would also be a plausible site of an experiment. We believe that the Donbas region is a good candidate for an economic experiment of an emissions trading system. First, there is considerable industry in the region. Second, it has been extensively studies by the US EPA, EBRD, World Bank and others for economic and environmental reasons. Third, there are potential health and safety issues that could be addressed under a well-designed experiment.

Under current rules, international greenhouse gas (GHG) credit trading for developed countries can only include reductions created after January 1, 2008. This means that GHG reductions achieved before 2008 will have no value since they are not creditable toward a country's obligation.

Assigned amount units (AAUs) are a valuable commodity even before 2008. They can be sold forward to provide incentives for various activities that the government wants to promote or they can be "optioned." AAUs could also be "sliced-out" of the 2008-2012 budget period and made available for early actions.

A country could allocate a certain number of AAUs to promote energy efficiency projects in a pilot program. These AAUs would be assigned to investors and developers of energy efficiency according to a predefined formula.

There are many ways to develop a GHG trading experiment. Of course, the best way might be to pass a law, but this takes

considerable time. Another means to develop such an experiment is to institute a decree from the Cabinet of Ministers. A decree might be sufficient to satisfy some of the pre-conditions that would facilitate an experiment and real commercial transactions.

Starting the development of market-based environmental programs outside of the United States has proven to be a difficult process despite the great benefits that result for industry, regulators, and the environment.

One way to proceed is the development of pilot projects or programs.

ECOLOGICAL AND ECONOMICAL ASPECTS OF THE DEVELOPMENT OF THE SOCIO-AND-ECONOMIC SYSTEM

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Every country faces many choices in dealing with its development issues. Development is a comprehensive process involving economic as well as social and environmental changes. We attempt to describe and explain the complex relationships among various aspects of development, including population growth, economic growth, improvements in education and health, urbanization, and globalization.

According to the Human Development Report 1996, published by the United Nations Development Program, "human development is the end - economic growth a means".

It is also important to remember that many aspects of development cannot be accurately measured by statistics.

It is true that economic growth increasing a nation's total wealth. But instead growth was achieved at the cost of greater inequity, higher unemployment, weakened democracy, loss of cultural identity, or overconsumption of resources needed by future generations. Standard measures of wealth accumulation ignore the depletion of, and damage to, natural resources such as forests and oil deposits, on the one hand, and investment in one of a nation's most valuable assets – its people – on the other. The genuine saving