

JI INVESTMENTS OPPORTUNITIES IN UKRAINE: BENEFITS AND RISKS

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Joint implementation (JI) is one of three flexibility mechanisms set forth in the Kyoto Protocol to help countries with binding greenhouse gas emissions targets (so-called Annex I countries) meet their obligations. JI is set forth in Article 6 of the Kyoto Protocol. Under Article 6, any Annex I country can invest in emission reduction projects (referred to as "Joint Implementation Projects") in any other Annex I country as an alternative to reducing emissions domestically. In this way countries can lower the costs of complying with their Kyoto targets by investing in greenhouse gas reductions in an Annex I country where reductions are cheaper, and then applying the credit for those reductions towards their commitment goal.

A JI project might involve, for example, replacing a coal-fired power plant with a more efficient combined heat and power plant. Most JI projects are expected to take place in so-called "economies in transition," noted in Annex B of the Kyoto Protocol. Currently Ukraine is slated to host the greatest number of JI projects.

The process of receiving credit for JI projects is somewhat complex. Emission reductions are awarded credits called Emission Reduction Units (ERUs), where one ERU represents an emission reduction equaling one tonne of CO₂ equivalent. The ERUs come from the host country's pool of assigned emissions credits, known as Assigned Amount Units, or AAUs. Each Annex I party has a predetermined amount of AAUs, calculated on the basis of its 1990 greenhouse gas emission levels. By requiring JI credits to come from a host country's pool of AAUs, the Kyoto Protocol ensures that the total amount of emissions credits among Annex I parties does not change for the duration of the Kyoto Protocol's first commitment period.

Unlike the case of the Clean Development Mechanism (CDM), the JI has caused less concern of spurious emission reductions, as the JI, unlike the CDM, takes place in countries which have an emission reduction requirement.

Scientists estimate that the risk-weighted potential of Emission Reduction Units (ERUs) likely to be generated in Ukraine in 2008–2012 is around 50 MtCO₂e per year.

Priority sectors for JI activities in Ukraine: non-traditional and renewable energy and energy efficiency:

- Coal bed methane
- Landfill gas recovery
- Renewable energy
- Municipal district heating and water utilities
- Natural gas transportation and distribution systems
- Waste fuel and heat in metallurgy
- Coal and natural gas combustion systems

The most promising Ukrainian industry sectors are petrochemical, iron and steel, construction, and glass.

JI activity is aimed at the attraction of the external investments into economically viable GHG reduction projects, which can not be implemented in the current conditions due to low return on investments, high risks or regulatory barriers.

JI projects should:

- Contribute to national economic development
- Raise general technological level
- Improve local environmental conditions.

Main risks of JI activities for Ukraine:

1. Risk of financial losses of the state
 - caused by possible future necessity to purchase AAUs in the amount of previously sold ERUs to meet country's commitments on GHG emission reduction;
 - caused by assumed rise in price for all types of GHG emission reductions in the future.
2. Risk of compensation claims to Ukrainian government in case when the JI project fails to produce the contracted ERUs.

There are many benefits for investors in joint implementation projects, but some risks also exist.

Benefits for JI project investors in Ukraine:

- The potential for JI projects is large due to energy intensive economy, obsolete equipment, limited financing availability
- There are possibilities to find significant amount of medium and large scale JI projects and thus reduce transaction cost
- Good prospects for quick projects approval (practically all procedures developed and are to be confirmed soon)
- Existing wide infrastructure of scientific research and design organizations can provide high quality projects and thus mitigate non-registration risks
- Ukraine as Annex I Party is interested in the projects that really are additional, thus lowering non-registration risk
- Ukraine will not become a member of the EU anytime soon that otherwise could reduce the additionally of a large number of potential JI projects.

Risks for JI project investors in Ukraine:

- JI project rejection risk
- Non-registration risk
- In case of project delays the risk of profit losses due to rising ERU prices
- Non-performance (non-delivery) risks.

