

Report

Top-Priority Objectives for Kazakhstan after Buenos Aires

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1. Main Results of Buenos Aires

1.1 Buenos Aires Plan of Actions

The main result of COP-4 is adoption of a two-year Plan of Actions (adopted at the final plenary session, document # FCCC/CP/1998/1.23) indicating specific measures for developing mechanisms for observing the Kyoto Protocol, and time for preparing particular documents. Adoption of strict periods for implementation of activities was a major achievement of the negotiation process.

Buenos Aires Plan of Actions incorporates six main elements:

- Financial mechanisms.
- Development and transfer of technologies.
- Enforcement of Article 4 of the Convention.
- Actions Implemented Jointly (AIJ) – intensive phase.
- Mechanisms of the Kyoto Protocol (Mechanisms of Flexibility).
- Mechanisms for observing the Protocol and measures to prevent climate change.

Thus, in 2000 the participants of the Protocol will have rules for implementing the Kyoto Protocol, including rules for trading quotas of greenhouse gas emissions (QGHGE) and rules for joint implementation (JI) projects. This gives a hope that the beginning of the years of 2000 –2001 will give us an opportunity for trading QGHGE.

IMPORTANT NOTE: In the process of work of the Contact Group on mechanisms the issue was discussed addressing offsets and accumulation of carbon credit, obtained through JI Projects by the Annex B countries of the Kyoto Protocol, since 2000. This makes early transactions with reinvested revenues even more attractive. The issue is still in the phase of discussion and has not obtained the recognition of all Parties under the Convention. In the next two years, all interested parties must make efforts for positive resolution of this issue. If it happens, potential revenues of countries - QGHGE sellers will increase alongside with the rise of the binding level for the money received through selling. In other words, the requirement of reinvesting the revenues received at the stage of preliminary trading will be formulated as an absolute requirement.

1.2 Political Results

The main political result was connected with the growing number of countries ready to increase their participation in implementing the Convention and Protocol. Argentina and Kazakhstan expressed their desire to make quantitative commitments to reduce green house gas emissions. Other countries are considering the opportunity

to follow the example of Argentina and Kazakhstan. These are Latin American countries to begin with, where Chile and Mexico are playing the most active role. More countries will presumably express their desire to assume quantitative commitments by the next conference.

This tendency can be explained by the growing concern of all the countries, without exception, over the local symptoms of the climate global warming, their desire to reach a constructive dialogue and adopt effective decisions for implementing the Kyoto Protocol. In fact, there is a tendency of forming a new group of countries with a more constructive position at negotiations among the developing countries (Group 77). Informal consultations showed that basic principles of this potential group are as follows:

- Willingness to use mechanisms of trading and JI since these mechanisms are more efficient than CDM.
- Willingness to make quantitative commitments in the form of growing budgets, but fulfilling the condition of their own contribution in reducing emissions (i.e., gas emissions must increase to a lesser extent than GDP).
- Willingness to form Annex C, where developing countries that will make quantitative commitments would be listed.

Thus, a number of countries could follow the example of Kazakhstan and join developed countries by joining Annex 1 of the Convention and Annex B of the Protocol, or could form Annex C.

Hence, the weakening of the destructive position of Group 77 and emergence of a new group of a more constructive position as for mechanisms of observing the Protocol could be expected during the future talks.

2. Position of Kazakhstan at Talks

In the process of study of potential consequences for Kazakhstan from participating in implementation of the Kyoto Protocol specialists came to a unanimous conclusion that a strategic objective for Kazakhstan was to join Annex B countries of the Kyoto Protocol. Alongside with a positive political resonance this strategy can bring positive economic results. Kazakhstan will be able to take part in QGHGE international trading. It will bring significant revenues and facilitate technical progress. Preliminary study of long-run dynamics of the most important macroeconomic indices enables to draw a conclusion on practicability of such step. 105% - 110% of 1990 emissions are deemed as a starting point to consider quantitative commitments.

Basic documents proving the Kazakhstan position were: Statement of the Ministry for International Affairs made before Kyoto; Decision of the Interagency Commission on joining Annex B of the Kyoto Protocol; First National Announcement; Main Elements of the Concept, and others.

- Kazakhstan is concerned by the acceleration of processes of climate change, which can seriously affect the country. Thus, Kazakhstan is striving to take a more active position in implementing the Convention and Kyoto Protocol by taking commitments that are even more advanced. Doing this Kazakhstan hopes to not only make its contribution to the cause of preserving the climate, but also give an example for other countries.
- For reaching this goal, Kazakhstan is planning to join Annex B through Annex 1 of the Convention.
- Kazakhstan will make quantitative commitments to reduce GHG emissions (budget of emissions related to the first budget period) and will work on justification of specific numbers. On the one hand, Kazakhstan commitments will be less than the forecasted numbers, and that will reflect willingness of Kazakhstan to make efforts of its own to reduce GHG emissions. On the other hand, the budget must not be a constraint to a balanced economic growth compliant to the criteria of sustainable development.

The Kazakhstan delegation explained its position during many multilateral and bilateral talks.

3. Goals of Kazakhstan and Their Achievement during Talks

The major goal of Kazakhstan was to realize the above-specified position, to seek and contact with strategic partners.

During the talks the following proposals have been made:

- Precisely announce the desire to accede Annex B and undertake the reasonable commitments, though not to begin the discussion of the specific meaning of the commitments. Emphasis should be put on the general principles of establishing commitments and on the specific appropriate steps to be undertaken.
- Support the most democratic mechanism of QGHGE trading.
- Carry out consultations with other countries, also striving to accede Appendix B, and raise a question of organizing a possible coalition of such countries. The target of the coalition is to achieve precise and simple mechanism for acceding Appendix B.
- Announce the intention to organize the efficient mechanism of reinvesting revenues, which Kazakhstan can yield from QGHGE trading, in the projects aimed at the reduction of GHG emissions. Demonstrate the existence of such projects, and the structure capable to implement the existing projects and to identify new projects.
- Been exposed to the Umbrella Group as a potential partner in QGHGE trading.

Main efforts of the Kazakhstan delegation were aimed at the realization of these goals.

4. Major Achievements of the Kazakhstan Delegation

The Kazakhstan delegation achieved the set goals completely. The position of the Republic was precisely and clearly presented in the speech of the Minister of Environment Protection and Natural Resources, then, during the presentation of Kazakhstan on November 12, in the speech for JUSSCANZ, and in the process of bilateral consultations.

Consequently, Kazakhstan achieved the following:

- The Kazakhstan position was understood and supported by the world community.
- The support was promised in the development of the national strategy and the rationale of the objective level for quantitative commitments.
- Kazakhstan was included in the Umbrella Group as an observer (it means not only the exchange of information and coordination of the position, but also powerful political support from the Group).
- Kazakhstan made considerable progress in relations with JUSSCANZ.
- The constructive position of Kazakhstan was a positive example for the CIS countries. The prestige of Kazakhstan among these countries undoubtedly grew.

This success should be backed. By the succeeding conference of the Parties, which will take place next year, it is necessary to undertake further steps on integrating Kazakhstan in the community of developed countries with transition economy. The important result of work was deep mutual understanding of the Kazakh and the US delegations, the US delegation rendered Kazakhstan considerable moral and political support. Alongside with it, sincere exchange of opinions allowed to delineate most important areas for technical assistance to Kazakhstan. This assistance combined with internal resources will allow working at the realization of the opportunities, which are open for the Republic owing to the political success achieved at the Fourth Conference of the Parties.

5. Primary Steps after Buenos Aires

In the short run, to consolidate political success achieved in Buenos Aires, Kazakhstan should undertake the following steps:

- Accede Annex 1 of the Framework Convention.
- Develop fair quantitative commitments to reduce GHG emissions.
- Develop internal mechanism to manage emissions of the greenhouse gases, including monitoring and financial policy.
- Organize a discussion with interested organizations and public groups regarding the policy of Kazakhstan in the area of climate issues. Prepare for ratification of the Kyoto Protocol.
- Develop a long-run strategy for QGHGE trading.
- Participate in the implementation of the Plan of Actions.

5.1 Acceding Annex 1 of the Framework Convention

Based on consultations with competent lawyers the two ways for acceding Annex 1 of the Framework Convention were identified:

In conformity with Article 4.2f.

In conformity with Article 4.2g.

The second way appears to be more easy and preferable. To realize it, Ministry of Foreign Affairs should prepare and deliver the appropriate documents to the Depository, i.e. to the UN General Secretariat.

It is judicious to apply to the assistance of an international lawyer and prepare a short report covering both technical (procedure) issues of acceding Annex 1 and ensuing commitments (Article 4.2. "a" and "b"). The capability of Kazakhstan to meet the specified commitments is beyond doubt. However, clear description and interpretation of these commitments will be very useful.

5.2 Development of Fair Quantitative Commitments to Reduce GHG Emissions

In the Minister's speech, at the presentation of the delegation, and in the process of bilateral negotiations it was declared that Kazakhstan was ready to undertake realistic emission limitations. This implies that from one side Kazakhstan will bear in mind its own efforts on the limitation of GHG emissions (in other words, emissions will be lower than the forecasted level presented in the First National Declaration). On the other side, the emissions budget should not create artificial constraints for social and economic development of the Republic. The emissions budget should take into account different factors characteristic of Kazakhstan (structure of primary energy resources, structure of GDP, structure of export-import, etc.).

Justifying the reasonable level of limitations, it is essential to consider the necessity of the transition to new technologies, structural progress in the economy, and the improvement of the export-import structure. The introduction of limitations itself will stimulate improvements in the economy, facilitating the Republic to enter the trajectory of sustainable development.

To carry out complex analysis of the issues, it is necessary to use the model of macroeconomic analysis adjusted for the transition economy and aligned with the parameters of the Kazakhstan economy. The forecasts concerning the dynamics of GDP and the structure thereof should be used as the reference information. The model should simulate the process of technology change under different stimuli, one of which will be the participation of the Republic in QGHGE trading.

In the process of consultations with the American delegation, Kazakhstan achieved an agreement, which stated that USA would provide Kazakhstan with appropriate assistance in that area. It is judicious to start this work immediately with participation of Kazakhstan and foreign researchers. A multidiscipline group including specialists of different types should be created.

Along with the rationale of quantitative emission commitments, it is expedient to assess the potential of Kazakhstan in respect to the sale of GHG quotes. In this context, it is important to show the difference between the participation of the Republic in early transactions and additional reduction of emissions in the period from 2008 to 2012.

Macroeconomic rationale of quantitative emission commitments is a necessary, but not sufficient condition to determine the quota. Further on, the issue will be settled at the political level. In Buenos Aires Kazakhstan achieved mutual understanding with the Umbrella Group. Kazakhstan received promises to be supported in the issue of undertaking commitments. It is necessary to continue and deepen consultations with the Umbrella Group concerning this issue. In addition, it is judicious to develop contacts with other countries examining issues related to the undertaking of emission limitations, such as Argentina, Chile and others.

5.3 Development of Internal Management Mechanism for GNG Emissions, Including Monitoring and Financial Policy

Efficient strategy for trading GNG credits within Annex B requires from Kazakhstan the development of a detailed legal and normative base that will control GNG emissions. Different step approaches may be used here. High-quality inventories of GNG emissions, an appropriate level of monitoring and efficient reduction of emissions of greenhouse gases are the basic elements of the legal and normative base. The national strategy of Kazakhstan must alter and develop based on the market and macroeconomic conditions of the country. Any strategy should be legally grounded. The main step in this direction is the assessment and improvement of state administration bodies summoned to monitor emissions of the greenhouse gases. In the future, their functions should be strengthened and enhanced.

Following the Kazakh legislation, the Ministry of Ecology and Natural Resources is responsible for monitoring adverse affects on the environment. It will be logical to assume that the management of GNG emissions will be also shouldered on this Ministry. The GHG management policy should be based on a long-term macroeconomic forecast, and on the energy program of the country.

Use of a macroeconomic model will allow simulating various scenarios for the development of the instrument to monitor the GHG emissions and dynamics of the emissions in different sectors. It may differentially appraise the impact of the management measures for each sector. This will contribute to a continuous analytical support in the taking-decision process as an instrument of management of the GHG emissions. It will be also helpful for correcting the strategy. As it was announced at the meeting with the US delegation the United States are ready to render assistance to Kazakhstan in this area. Different from quantitative constraints that should be stipulated sufficiently fast, the activities related to the controlling internal mechanism are slow to carry out and may take longer time. It is expedient to develop a program of cooperation designed for 3-4 years.

The announcement of Kazakhstan to reinvest the overwhelming part of trade earnings and invest them in the measures contributing to the GHG reductions, and correspondingly, to increase the selling GHG quotas sounded politically significant.

The institutional prerequisites and an elaborated program for refinancing the earnings give the opportunity to raise a question whether Kazakhstan will participate in the early transactions based on forward and option contracts.

5.4 Development of Long-Term Strategy for GHGQ Trading

Economic research addressed to the enhancement of the quota market for GHG emissions are critical to develop the Kazakhstan national strategy and work out particular programs. This will serve a basis for calculation a curve related to the offers of Kazakhstan. In all cases, Kazakhstan will not be able to influence upon the quota purchase price on the world market. The market may be restrained by special rules, and this may have an impact on the market volume and price.

Under these conditions, market developments are viewed from the perspective of several discrete stages. The first may be from 1999-2004 as the earliest stage of the market, and is characterized by early transactions (ETS). The main players at this stage will be the Annex B countries that assumed the obligations to reduce GHG emissions, and among those chiefly the Umbrella Group. The CDM may also be established. However, the application of this mechanism causes some uncertainties, such as the credit size, relatively high transaction costs, and ratification of the Kyoto Protocol, which seems to be problematic in terms of time. Due to this, most likely, the ETS will be distinctive by relatively low demand for the GHG quotas despite sufficient trading offers within the Umbrella Group.

The second stage of market development may cover the years of 2004-2008. We will give this phase the name *Preparing for Kyoto Stage (PKS)*. In this period, the CDM may be already widely applied. At least, uncertainties related to the CDM application will be essentially reduced. However, some of the uncertainty surrounding the event that not all the countries ratified the Kyoto Protocol may remain. Consequently, PKS will be characterized by less uncertainty on the demand side, as purchasers will have more assurance about the value of credit. The offer may increase due to the involvement of new countries in Annex B.

The third stage of market development will be the first budget period itself from 2008-2012. In this stage, we would expect *Full Implementation of Kyoto Protocol (FIKP)*. During FIKP, the major uncertainties would arise from the artificial constraints established on emissions trading quotas. The constraints may exist in the form of quantitative limitations imposed either multilaterally or bilaterally. The main problems from the supply side may be connected with the use of carbon sequestration. Absent additional demand-and-supply constraints, this stage should see full market development.

In the post-2012 period, the second GHG budget will take effect. For this final stage Annex B limits would likely be tightened, and the number of nations acceding Annex B would be increased. The CDM will be used to a less extent, or perhaps will no longer be available. Demand would likely increase but also be more elastic, the supply would also change.

Once these market stages are qualitatively and quantitatively characterized, the price scenarios can be considered in different phases of the market developments. To determine potential revenues for Kazakhstan and the market behavior strategy a supply function (costs for GHG reductions) should be estimated. Of particular importance is the understanding of the mix of market strategies (forward sales,

project-based investing based on the mechanisms of joint implementation, and options). The optimum selection of strategies will depend upon the GHG reduction opportunities in Kazakhstan, linked with the macroeconomic forecast. A long-term national strategy for sustainable reductions through national policies and programs should be also developed.

5.5 Kazakhstan Policy Discussions of Climate Issues with the Agencies and Public Groups Concerned, and Preparation for Ratification of the Kyoto Protocol.

In the first instance, interests of different groups for the realization of the Kyoto Protocol should be cleared out. Then, consultations with the groups and public hearings are expedient. The strategy for the activities should be thoroughly planned.

5.6 Participation in Implementation of Plan of Actions

Implementation of the Plan of Actions and concrete decisions on the issues raised may directly affect the Kazakhstan interests. Therefore, the country should be an active participant of its implementation. The following steps might be undertaken:

- To identify the issues affecting the interests of Kazakhstan;
- To train specialists who will participate in the issue negotiations;
- To find accomplices and allies.

These actions will contribute to the active participation of Kazakhstan in the talks. The main cooperation is assumed within the Umbrella Group. Precisely with this Group Kazakhstan will discuss the nuances of the mix of documents and coordinate the negotiation position.