

## Adding a Public Voice to Investing the “Hot Air” Windfall

*Ruth Greenspan Bell and Elena Safirova*

One of the more controversial provisions of the Kyoto Protocol gives Russia, Ukraine, and countries in Central and Eastern Europe the right to sell or trade excess emissions credits, which were gained because the protocol set emissions targets at 1990 levels, after which many of these countries' economies (and emissions levels) collapsed.

These fortuitous credits, often referred to by critics as “hot air,” are unlikely to have any salutary effect on greenhouse gas reductions because they are not associated with future reductions in emissions. They also represent an enormous windfall: the potential revenue from their sale could amount to billions of dollars.

This revenue presents a singular opportunity to bring about lasting change in Russia, Ukraine, and Central and Eastern European countries. Properly channeled, revenues from excess credits could provide direct support for projects such as curtailing energy consumption and switching to low- or non-carbon energy sources that reduce greenhouse gas emissions, as well as for other environmental efforts. Funding would also help build institutional and human capacity to administer such projects and assure their long-term success.

We are engaged in a joint effort to consider how two countries, Poland

and Ukraine, which are holding large quantities of credits, can invest the proceeds in ways that will build their capacity to better manage their greenhouse gas emissions. Our partners are Poland's Institute for Sustainable Development, which is headed by Andrzej Kassenberg, and the Institute for Industrial Ecology, Kiev, Ukraine, with the active participation of Olga Gassan-zade.

Together, we have planned a combination of joint research, formulation of policy alternatives, and dissemination of those options into the policy arena in each country. What is innovative about this plan is the effort to add a public voice and independent policy analysis to ongoing discussions on how the proceeds from these sales might be used to advance environmental protection.

We believe that a public voice is essential to the eventual success of such plans, for at least two reasons. The first is that local experts can provide valuable insight into the institutional capacity and readiness to act in each of their countries. Moreover, local knowledge should be a part of any analysis of investment goals and how these are carried out, and in many cases can help evaluate the credibility of potential investments.

The second reason is that a public voice has value in all situations where potentially huge amounts of money

might change hands. Much of the thinking about green investment has taken place within a relatively small community of climate scholars, activists, and government, but the implications are important for a broader swatch of society. A public voice helps assure a more transparent process and open procedures.

### An “Expiring” Opportunity

Hot-air credits are technically slated to “expire” at the end of the first Kyoto commitment period, and various procedural issues have yet to be worked out before sales of credits can start. Today it is still unclear how high the demand will be. On the other hand, the credits are a temptation for countries having difficulty meeting their Kyoto targets, and many have expressed a preference for “greened” credits that would effectively link the purchase of credits with investments and activities that reduce greenhouse gas emissions.

Two other Kyoto Protocol flexible mechanisms, the Clean Development Mechanism (CDM) and Joint Implementation (JI), allow participating industrialized countries to invest in emissions-reducing projects in other countries in lieu of reducing their own emissions. However, CDM and JI projects are neither easy nor quick to develop; among other things, they must be certified by special commissions to allow the credits to be transferred.

Experts predict that sales of hot-air credits will pick up as 2012 nears and the pressure to meet Kyoto obligations escalates. If that happens, it will be critical that the countries in Eastern and Central Europe have effective green investment programs in place to make sure that their potential hot air does not vanish into thin air. ■