



# Emissions Trading: Relevance to ECAs

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# Emissions Trading

## A Discussion of Relevance to ECA's

- A Review of the 3 Kyoto Mechanisms
  - Emissions Trading (ET)
  - Joint Investment (JI)
  - Clean Development Mechanism (CDM)
- Many terms to describe the “trading unit”
  - GHG Emissions Permits and Allowances
  - Emission Reduction Units/Permits (ERU)
  - Certificates of Emission Reduction (CER)

# ECA Cover for the Kyoto Mechanisms

- Should ECA's cover emissions trading risks under
  - Political Risk Insurance Cover
  - Export Credit (i.e. Comprehensive) Insurance Cover
  - "Bond" Facilities
- Will new ECA products need to be developed to support emissions trading?
- Will changes to the OECD Consensus be required?

# Building an ECA “Kyoto Strawman”

Is the CDM the place to start to build an ECA Kyoto “Strawman”?

- The CDM Project takes place in a Developing Country
- There are “Export Benefits”
- Fulfills traditional role and expertise of ECAs:
  - Assessing Investment Risk, Political Risk and/or Credit Risk
  - Providing cover not usually available from the private sector
  - Extended Exposure Period under a CDM project may increase risks
  - Approval of a CDM Project to Issuing CERs could take several years

# Building an ECA “Kyoto Strawman”

(continued)

- CERs represent a source of funds for the CDM project, and therefore could
  - Reduce credit risk to an ECA
  - Reduce exposure period to an ECA
- Pricing of CERs determined by risk to buyer...and seller
  - ECA cover of certain CER risks may influence CER initial price

# Possible Steps to Build an ECA Model to Support CER Trading

- ECA Understanding of Emissions Trading Schemes and impact of any links to CDM Projects and trading of CERs
- Identifying and Breaking Down Risks in a CDM Project into
  - Traditional Project related risks in a developing country project, and
  - Unique Risks to a CDM Project and Issuance of CERs
- Categorizing Unique CDM Risks as:
  - Commercial, or
  - Political

# Possible Steps to Build an ECA Model to Support CER Trading

(continued)

- Separate CDM related Commercial and Political Risks into:
  - Private Sector cover available, and
  - No Private Sector cover now or in foreseeable future
- Determine Why No Private Sector Cover and if ECAs should cover
- Consider Benefits and Costs of ECA Cover
  - Modify or Redesign Existing ECA products, such as PRI (Contract Frustration) or
  - Develop New ECA products to Cover CER trading Risks

Can the model be adapted to fit JI projects?

# Next Steps?

- Form a Working Committee to consider
  - A case for ECA Cover Support of Kyoto Emission Trading schemes for
    - CDM projects
    - JI projects
- Members of Working Committee
  - Only ECAs or include
    - Private Sector banks, insurance companies and emissions traders
    - Others
- Consider appropriate forum
  - Initially under the ECA UNEP Environmental Workshops, or
    - OECD
    - Berne Union