Appendix 1

Background—Belarus’ status under the Kyoto Protocol

Belarus has ratified the Kyoto Protocol (KP) and is an Annex 1 party to the UN Framework Convention on Climate Change (UNFCCC). However, unlike other transition economies under Annex 1 Belarus is unable to engage in international emissions trading (IET) or project based activities through the joint implementation (JI) mechanism since it does not have an emissions allowance under Annex B of the Kyoto Protocol (KP). The reason for these restrictions is that Belarus was not party to the UNFCCC at the time the KP was adopted and was therefore left out of the distribution of commitments and allowances.

Belarus will be eligible for JI and IET only after it is included in Annex B of the Kyoto Protocol. This will require the KP to be amended to include a greenhouse gas (GHG) emission target for Belarus. Following the decision at the Conference of Parties (CoP) meeting in Montreal in November 2005, Belarus has submitted to the UNFCCC a draft amendment to Annex B of the KP and has initiated negotiations with parties to the KP who would need to endorse this amendment. The amendment is proposed for adoption at the next CoP to be held in November 2006 in Nairobi, Kenya.

Meeting eligibility requirements for IET and JI

To be able to participate in IET and JI track 1, transition economies must meet the following eligibility requirements by January 1, 2007:

- Calculate their assigned amount in tons of CO₂ emissions, as referenced in Articles 3.7 and 3.8 and Annex B of the KP.
- Put in place a national system for estimating emissions and removals of greenhouse gases within their territory.
- Put in place a national registry to record and track the creation and movement of AAUs, ERUs, and RMUs and annually report such information to the secretariat of the UNFCCC.
- Annually report information on emissions and removals to the secretariat.

Belarus is taking appropriate steps on the institutional and regulatory front to meet its obligations under the KP and to be able to engage in the Kyoto mechanisms. Specifically, Belarus has committed to establish the following in 2006:

(i) A national system and center for calculation of the GHG inventory. The 2004 inventory and the second national communication have been prepared. A GHG emission reduction strategy for 2007–12 is being drafted.
(ii) A National Registry.
(iii) A National Body to review and endorse JI projects.

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1AAUs = assigned amount units; ERUs = emission reduction units; RMUs = removal units. Sequestration is achieved domestically in Annex 1 countries.
Opportunities for Belarus under the JI mechanism

Two areas where there are opportunities for engaging under the JI mechanism are as follows:

(i) Energy efficiency investments. Belarus for some time has had a policy to reduce energy intensity. While energy efficiency reforms\(^2\) have brought tangible results,\(^3\) there remains a need to continue rigorous support for these measures to achieve European standards; Belarus’ energy efficiency potential is still two times above the EU average.\(^4\).

(ii) Land use change and afforestation. Belarus could also benefit from LULUCF projects such as afforestation within the Chernobyl restricted zone and the preservation of wetlands. Here JI revenues could help to make the case for land use change and reform. Although opportunities on the JI market for such projects may be limited, these could be good candidates for greening under an AAU transaction (see below).

Opportunities for Belarus under IET

Belarus’ greenhouse gas emissions are around 50 percent of their (baseline) 1990 emission levels. While these numbers are indicative, since Belarus does not yet have an established emission reduction target, this raises the possibility that Belarus could trade part of its assigned amount unit (AAU) in the first commitment period.

The potential supply of AAUs from other economies in transition is estimated at over 6 billion tones—more than 3 times the expected demand. However the sale of all available AAUs may not be possible for a couple of reasons:\(^5\)

(i) Potential sovereign buyers have concerns that AAU transfers are not “additional” and have expressed interest in IET only if AAUs are “greened”; that is, AAUs that are linked to investments and activities in projects and programs with environmental benefits.

(ii) Buyers have expressed a preference for credible, transparent, and well-structured proposals for greening that provide assurance the resources will actually flow to an agreed project pipeline and that environmental benefits are achieved.

To be eligible to trade, Belarus must first meet the eligibility criteria outlined in the section above, and must develop a proposal for greening and trading of its surplus assigned amount for discussion with potential buyers. Typically, in designing a proposal for IET, a country would need to do the following:

\(^2\) Supported with economic incentives on the demand side, such as raised tariffs, improved payment discipline, and tax exemptions.

\(^3\) The energy intensity factor has reduced from 0.76 toe per US$1,000 of GDP (PPP) in 1995 to 0.45 toe per US$1,000 of GDP (PPP) in 2004 (World Bank, 2005, Belarus “Country Economic Memorandum”).

\(^4\) WDI and UNFCCC statistics.

\(^5\) These requirements are expected to substantially reduce (by 50 percent or more) the amount of available AAUs that could be offered for trade.
• Determine the volume of AAUs for trading and to be held in reserve for future commitment periods.
• Review and identify the decisions, rules, regulations, and institutions are needed to (i) be able to execute trades in AAUs and (ii) manage the proceeds of sales of AAUs.
• Identify ways of using the proceeds of AAU sales to promote greening and identify the different economic sectors with investment as well as the emission reduction potential.
• Outline a design option(s) for an AAU-backed green investment scheme

**Actions going forward**

On the assumption that the KP will be amended to include an emissions allowance for Belarus in December 2006, and that this will be endorsed by parties to the KP, it would be prudent for Belarus to prepare the necessary groundwork to engage in JI and IET. Since Belarus at the end of 2006 would be lagging on both fronts compared with other transition economies, the country will need to move quickly to establish credibility in the market.

As Belarus at this point does not have experience with the JI mechanism to be able to engage in JI or IET, it would be important to demonstrate to the market that Belarus is a credible partner. The list of immediate actions includes the following:

(i) Continue, as a priority, current programs to meet eligibility criteria for JI and IET by January 1, 2007.
(ii) Establish a pipeline of projects under the JI track 2 mechanism to demonstrate that the appropriate regulatory frameworks are in place and conditions in Belarus are conducive to investment in JI projects.
(iii) Review and examine conditions for trading in AAUs and develop a proposal for engaging with potential buyers through, for example, a green investment study.

While decisions are pending, it is recommended that priority is placed on (i) and (ii). Once the situation regarding Belarus’ assigned amount is clearer, work can commence on (iii).

The World Bank could potentially support (i) and (ii) through the following activities:

- Review Belarus' KP compliance plan, with a view to providing support to improve the plan and/ or increase its effectiveness.
- Review Belarus' second national communication and, in conjunction with sector specialists from the World Bank, provide support to identify a potential pipeline of KP opportunities that would be worthwhile to pursue under JI track 2.
- Assist Belarus with JI track 2 project development.
- Provide capacity-building assistance for JI/ IET institutions.

In terms of support for (iii), the Bank has experience through activities with other transition economies (Bulgaria, Ukraine, Latvia, and Russia) in the development of options for trading of AAUs. Similar support could be provided to Belarus if there were a positive response from the next Kyoto CoP in November 2006.