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FOLDER TITLE:
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2017-1095-F
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P1 National Security Classified Information [(a)(1) of the PRA]
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b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

Josef E. Aldy
Council of Economic
Advicers
Executive Office of the President

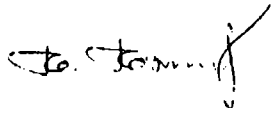
Dear Josef E. Aldy,

We would like to inform You that we have officially informed all relevant Ministries, Departments and Institutions about proposal on establishment of the Initiative Group «Third Way». This idea has been discussed in detail and the outcomes of our discussions are positive.

Now, as we arranged with You in Bonn, we kindly ask You to send to our Government the official request concerning reaction on Initiative Group «Third Way». This action would significantly speed up negotiation process.

We are looking forward for Your reply on this matter.
Thank You very much for cooperation,

Yours Sincerely,



Mirzakhan Mansimov
Vice-chairman
State Committee on Hydrometeorology
Baku, Azerbaijan Republic

Republic of Uzbekistan

Statement by Mr. V.E. Chub
Head of the Delegation of the Republic of Uzbekistan,
Minister, Chief of the Main Administration of Hydrometeorology,

at the Fifth Session of the Conference of the Parties
to the United Nations Framework Convention

Dear Mr. Chairman, dear delegates of COP 5, ladies and gentlemen,

It is a great honour for me, as the Head of the delegation of the Republic of Uzbekistan to congratulate Mr. President of COP on his election and thank him for the excellent organisation of COP 5 Work.

I am also pleased to thank the government of Germany, mayor and citizens of Bonn for their constant concern about the global environmental issues and their hospitality.

The period after our meeting in Buenos Aires was very important for Uzbekistan from the point of view of measures taken at the national level for the fulfilment of commitments under the UNFCCC. In this concern, we emphasize the adherence of the Republic of Uzbekistan to the objectives and principles of the UNFCCC. The issues of the global climate change are included into the priorities of the international policy of the Republic of Uzbekistan. In August 1999, the Parliament of the Republic of Uzbekistan ratified the Kyoto Protocol on the UNFCCC. Within the framework of the fulfilling the commitments under the UNFCCC, we have prepared and presented the Initial National Communication to the 5th Session of the COP, and we are interested in its in-depth review.

The evaluation of GHG-s emission trends up to 2010 has shown that in the forthcoming year, the level of 1990 can be exceeded. In Uzbekistan, GHG emissions reduced only by 5.5% during 1990-1996 in comparison with other CIS countries (including Russia, Kazakhstan, Ukraine). In conformity with such insignificant rates of emissions reduction in Uzbekistan, the further development of Uzbekistan economy can be regarded as optimistic. Nevertheless, it is necessary to apply additional measures to reduce GHG emissions in our country.

Mark
Joe

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TASHKENT 3838

For our mtg. w/ Uzbeks ~~tom~~ Sat. at 8:45

From: AMEMBASSY TASHKENT
Subject: CLIMATE CHANGE: UZBEKISTAN CONSIDERS COP-5 OPTIONS

MRN: 3838
ICNbr: TED4078

Date/Time: 231024Z SEP 99
Precedence: ROUTINE

Cable Text:

TED4078
ACTION OES-01

INFO	LOG-00	NP-01	AGRE-00	AID-00	AMAD-01	CIAE-00	CIP-00
	COME-00	DINT-00	DODE-00	DOEE-00	ITCE-00	SRPP-00	EB-00
	EUR-01	E-00	UTED-00	H-01	TEDE-00	INR-00	IO-00
	ITC-01	LAB-01	L-01	ADS-00	NASA-01	AC-01	DCP-01
	NSAE-00	NSCE-00	NSF-01	OIC-02	PM-00	PRS-00	ACE-00
	SP-00	SSO-00	SS-00	STR-00	TRSE-00	T-00	USIE-00
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FM AMEMBASSY TASHKENT
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AMEMBASSY ASHGABAT
AMEMBASSY BISHKEK

UNCLAS SECTION 01 OF 02 TASHKENT 003838

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E.O. 12958: N/A
TAGS: SENV, AID, UZ
SUBJECT: CLIMATE CHANGE: UZBEKISTAN CONSIDERS COP-5 OPTIONS

TASHKENT 01 OF 02 3838

1. SUMMARY: REO ATTENDED A SEMINAR ON GLOBAL CLIMATE CHANGE HELD IN TASHKENT ON SEPTEMBER 21 AT THE INSTITUTE FOR STRATEGIC STUDIES (ISS). THE EVENT WAS SPONSORED BY USAID CONTRACTOR ENVIRONMENTAL POLICIES AND INSTITUTIONS FOR CENTRAL ASIA (EPIC). WITH EPIC SUPPORT, A TEAM OF UZBEK SPECIALISTS HAS BEEN WORKING SINCE MAY TO CONSIDER THE BEST OPTION(S) FOR UZBEKISTAN'S PARTICIPATION IN THE KYOTO PROTOCOL. THIS IS THE SECOND STUDY SPONSORED BY FOREIGN DONORS IN THE PAST YEAR. THE GOVERNMENT OF UZBEKISTAN WILL NOW CONSIDER BOTH STUDIES AS IT PREPARES FOR NEXT MONTH'S COP-5 MEETING IN BONN. END SUMMARY.

2. THE VENUE FOR THE SEMINAR WAS THE INSTITUTE OF STRATEGIC STUDIES, A GOVERNMENT-SPONSORED THINK TANK WHICH CLAIMS TO HAVE ACCESS TO THE HIGHEST LEVELS IN THE UZBEK GOVERNMENT. ITS DIRECTOR, RAFIK SAIFULIN, HAS BECOME AN IMPORTANT CONTACT FOR EPIC (AND USAID). HE ALSO HOLDS THE RANK OF DEPUTY MINISTER FOR NATIONAL SECURITY.

3. ABOUT 30 UZBEK AND AMERICAN OFFICIALS ATTENDED THE PROGRAM ON SEPTEMBER 21. KEY MINISTRIES ON GLOBAL CLIMATE CHANGE WERE REPRESENTED, INCLUDING THE MINISTRY FOR MACROECONOMICS AND STATISTIC, THE MINISTRY OF FOREIGN AFFAIRS, THE STATE COMMITTEE FOR NATURE PROTECTION, AND THE STATE COMMITTEE FOR HYDROMETEOROLOGY, REPRESENTED BY DR. VICTOR CHUB, A CABINET MINISTER WHO WILL LIKELY BE HEAD OF THE UZREK DELEGATION TO BONN. SEVERAL HIGH-RANKING OFFICIALS DID MOT APPEAR, HOWEVER, INCLUDING REPRESENTATIVES OF THE ALL-IMPORTANT PRESIDENTIAL APPARAT.

4. THE PRESENTATATIONS INCLUDED A SUMMARY OF THE CURRENT LEVELS OF EMISSION OF GREENHOUSE GASES IN UZBEKISTAN. UNLIKE MANY OTHER STATES WHO BROKE AWAY FROM THE SOVIET UNION, UZBEKISTAN DID NOT SUFFER A DEEP ECONOMIC DEPRESSION IN THE EARLY 1990S. ADD TO THAT A RAPIDLY GROWING POPULATION, AND ONE CAN SEE WHY LEVELS OF GHG HAVE NOT FALLEN AS FAR AS THEY HAVE IN RUSSIA, UKRAINE AND KAZAKSTAN. THE PRESENTATION INCLUDED INFORMATION ON THE RELATIVELY INEXPENSIVE COST OF REDUCING GHG IN UZBEKISTAN.

5. A LENGTHY PRESENTATION ON UZBEKISTAN'S TRANSPORTATION SECTOR FOLLOWED. IT CONCLUDED THAT UZBEKISTAN SHOULD ATTEMPT TO DECREASE ITS USE OF GASOLINE BY INCREASING USE OF DIESEL FUEL IN THE TRUCKING SECTOR AND BY TURNING TO GAS FUEL FOR PUBLIC TRANSPORT. UZBEKISTAN HAS SUBSTANTIAL RESERVES OF NATURAL GAS (ENOUGH TO LAST 35 TO 50 YEARS) BUT IS LESS RICH IN OIL RESOURCES. THERE ARE THREE LARGE REFINERIES IN UZBEKISTAN AND THE PRESENTER TOUCHED ON THE NEED TO MAKE THEM MORE EFFICIENT.

6. THE THIRD PRESENTATION (BY EPIC REPRESENTATIVE MEGAN FALVEY) PROVIDED AN EXPLANATION OF THE KYOTO PROTOCOL AND THE SO-CALLED FLEXIBLE MECHANISMS. THE DISCUSSION INCLUDED CONJECTURE ABOUT ANNEX C, AND EPIC TEAM MEMBERS URGED THE UZREKS TO PLAY AN ACTIVE ROLE IN THE FORMULATION OF ANNEX C IF/WHEN IT IS INTRODUCED BY ARGEMTINA AT BONN.

7. AFTER THE PRESENTATION, EPIC'S ALEXANDER GOLUB LED A DISCUSSION OF THE PRESENTATIONS AND SEVERAL UZBEKS ASKED TECHNICAL QUESTIONS ABOUT THE KYOTO PROTOCOL. FROM OUR POINT OF VIEW, ANNEX C GENERATED MORE COMMENT THAN ANNEX B OR THE EXCLUSIVE USE OF CLEAN DEVELOPMENT MECHANISM PROJECTS. DR. CHUB MADE NO COMMENT DURING THE DISCUSSIONS, RUT AS ALWAYS, HE PAID CLOSE ATTENTION TO EVERYTHING.

8. THIS IS THE SECOND STUDY OF UZBEK OPTIONS FOR PARTICIPATION IN THE KYOTO PROTOCOL IN THE PAST YEAR. THE SWISS GOVERNMENT SPONSORED AN EARLIER STUDY THROUGH THE WORLD BANK AND THE MINISTRY POR MACROECONOMICS AND STATISTICS. IT ESSENTIALLY IDENTIFIED AND PRIORITIZED POSSIBLE CLEAN DEVELOPMENT MECHANISM PROJECTS. IN ADDITIOM, THE GLOBAL ENVIRONMENT FACILITY (GEF) SPONSORED THE FIRST NATIONAL COMMUNICATION ON CLIMATE CHANGE, A DRAFT OF WHICH WAS PRESENTED IN THE OFFICE OF THE UNITED NATIONS DEVELOPMENT PROGRAMME. THE PRESENTATION OF THE DRAFT NATIONAL COMMUNICATION WAS SIMILAR IN CONTENT TO EPIC'S PROGRAM, BUT FOCUSED MORE ON THE CONSEQUENCES OF GLOBAL WARMING AND LESS ON THE ECONOMIC ADVANTAGES OF EMISSIONS TRADING.

9. COMMENTARY: IN OUR CONVERSATIONS WITH DR. CHUB, HE HAS INDICATED EVERYTHING IS OPEN FOR NEGOTIATION. HE IS A SERIOUS MAN WITH A STRONG GRASP OF THE ISSUES. HE TOLD US HIS POSITION IS NOT THE SAME AS OURS, BUT NEITHER IS IT THE POSITION OF THE G-77. WE THINK GOU SUPPORT OF ANNEX C IS LIKELY, GIVEN UZBEKISTAN'S CURRENT LEVELS OF ECONOMIC ACTIVITY AND ENVIRONMENTAL POLLUTION. WE WILL PURSUE THE MATTER FURTHER WITH DR. CHUB.

10. WE ALSO NOTE THAT THE FUNDING OF TWO STUDIES AND A

NOTE: NOT PASSED TO ABOVE ADDRESSEE(S)

TASHKENT 02 OF 02 3838

NATIONAL COMMUNICATION ON CLIMATE CHANGE BY THREE FOREIGN DONORS PERESENTED IN THREE DIFFERENT VENUES IS A FAMILIAR PATTERN. THIS OFFICE IS ATTEMPTING TO ARRANGE A MEETING OF EPIC, SWISS, UNDP, AND WORLD BANK OFFICIALS WHO TOOK PART IN THESE ACTIVITIES. PERHAPS WE CAN COME TO SOME UNDERSTANDING OF HOW AND WHY APPROACHES DIFFER AND WHAT EACH RECOMMENDATION, IF IMPLEMENTED, WOULD MEAN FOR UZBEKISTAN. END COMMENTARY.

11. FOR THE RECORD, THE REPUBLIC OF UZBEKISTAN SIGNED THE UN FRAMEWORK CONVENTION ON CLIMATE CHANGE IN 1993 AND SIGNED THE KYOTO PROTOCOL IN NOVEMBER 1998. IT RATIFIED THE KYOTO PROTOCOL IN AUGUST 1999. IT IS NOT A MEMBER OF ANNEX 1, NOR IS IT A MEMBER OF ANNEX B.
PRESEL

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End Cable Text

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AN EXAMPLE OF CALCULATING THE GREENHOUSE GAS EMISSIONS BUDGET FOR UZBEKISTAN

Alexander Golub, Harvard University

The objective of this document is to propose preliminary estimates of the emissions budget for Uzbekistan as a country that has expressed its wish to enhance the degree of its participation in the UN Framework Convention on Climate Change in the form of choosing the so-called *Third Way Concept.*

No generally recognized and established procedures for determining such a budget exist. We suppose that they will be elaborated in the course of negotiations among the Parties to the Convention with active participation of the countries that have expressed their desire to follow the *Third Way.*

In any event, the approaches for establishing the emissions budget should comply with the fundamental principles have been previously discussed by the Action Committee. These principles are as follows:

- The emissions budget should be based on comprehensive studies to substantiate the undertaking of voluntary commitments at a certain level;
- Emissions reduction commitments should not put any obstacles in the way of social and economic development;
- When undertaking the commitments, the countries proceed from the necessity of making their own contribution to ensure ecological benefits for the planet as a whole;
- The undertaking of the voluntary commitments of emissions limitations should give to the country the opportunity to participate in all flexible mechanisms under the Kyoto Protocol (KP) including emissions trading.

It is supposed that this example of determining the emissions budget may serve as an illustration how to implement the indicated principles in concrete figures as well as the basis for further activity of the Action Committee with the aim of developing the formalized attitude of the Action Committee to the problem concerning some approaches to determine the voluntary commitments (emissions budgets).

In the conceptual plan, the estimates provided below are based on the Draft *Third Way Concept* of 01.04.2000 prepared by Harvard University. As for the data on GHG emissions in Uzbekistan and the emissions forecast and for information concerning major indicators of social and economic development, the principal sources are the First National Communication of the Republic of Uzbekistan, WB NSS and operating materials prepared within the framework of the EPIC Program. It is highly desirable to expand this information base and, first of all, improve the general economic information. The invoking of additional information sources will make it possible to enhance the quality of forecasts and decrease the risks associated with the specified voluntary commitments (emissions budget).

Concept of the Group *Third Way* and the Integrated Approach for Establishing the Emissions Budget

In the above-mentioned Draft Concept of 01.04.2000, the fundamental issues of the *Third Way Concept* were discussed in detail. The analysis we carried out suggested that for today the integrated approach for determining the emissions budget to a greater degree meets the specific character of the New Independent States' (NIS) economies in transition.

The direct indexation of the emissions budget won't create adequate conditions for more complete participation of the countries in the flexible mechanisms under the KP. Thus it is proposed to consider a new, the so-called integrated, approach that provides for establishing the constant and variable components of the emissions budget.

With regard to the specific features of the economies in transition, some aspects might be noted that should be taken into consideration when setting the emissions budget for the "new countries".

Following are some features of the economy of transition period:

- Uncertainty of forecasting GDP dynamics and its pattern.
- Uncertainty of the pace and extent of technological renovation.
- Underdevelopment of the capital market.
- Poor development of market incentives.
- High discount rate (and, as a consequence, predominance of short-term motivation).
- Low rate of the internalization of externalities.

From the standpoint of realizing the long-term program on GHG emissions reduction, it is essential to establish the emissions budget as quickly as possible and to commence implementing the investment projects on emissions reduction as soon as possible. To do this requires sale on a forward or option basis some part of the emissions quota and to create a financial mechanism for reinvesting the funds gained.

It's our opinion that the *Third Way* Group could make the following proposal: to divide the emissions budget into two parts. The first part of it the country should receive immediately. Its determination should be based on the "low" GDP forecast, and the country will receive the second part within several years when the GDP real dynamics will be estimated.

The first part is constant and the second one is variable. To gain greater insight into the idea of the integrated approach, one should refer to Figure 2. Curve 1 corresponds to the GHG emissions forecast at the higher rate of the GDP growth and when the country chooses the resource-intensive path of development. Curve 2 fits the GHG emissions forecast at the high rate of the GDP growth but when the country chooses the resources-saving path of development. If it is known that the development will follow the "high" scenario, the emissions budget could be set at Curve 2 level (Fig. 1). The aggregate emissions budget would be equal to the total of the areas S4 + S3 + S2.

Curve 3 corresponds to the GHG emissions forecast at the "low" scenario of the GDP growth and at the resource-intensive way of development, and Curve 4 – at the resources-saving path of development.

Provided it is known that the development will follow the "low" scenario, the emissions budget should be set at the level of Curve 4 (it would be equal to the area S4). Thus, the emissions budget is confined between Curves 2 and 4 (Fig. 1). The constant part S4 may be separated from the budget and fixed at the very beginning without its revision thereafter. In addition, the interval may be set where the variable part S3 + S2 will be confined, and the rules should be specified whereby the emissions budget will be indexed within the variable part. The country will receive it several years prior to the commencement of the first budget period. Its value can't exceed S3 + S2. The part S3 + S2 that the country will receive shall be related to the economic index that in the lowest degree depends upon the country's efforts in GHG emissions reduction prior to the beginning of the first budget period. For example, there may be proposed average annual rates of the GDP growth.

By way of illustration let us consider that the "low" scenario of the GDP implies a GDP average annual growth of 3% and the "high" scenario – 6%. In case the GDP growth rates are lower, for example, 4 % per year, the additional emissions budget will represent (S3 + S2)/3.

Estimating the Value of the Integrated Emissions Budget for Uzbekistan (Preliminary Estimates)

First we'll describe the formal algorithm on constructing the integrated budget, and then we'll apply it for constructing the emissions budget of Uzbekistan.

Algorithm for Constructing the Integrated Budget

Step 1
Determining the corridor that involves the emissions budget.

The maximum and minimum forecasts for GHG emissions should be taken to determine this corridor. As we specified it earlier in the process of analysis of GHG emissions dynamics in the countries with economies in transition, there are several major factors that determine the emissions dynamics. They are as follows:

- GDP dynamics;
- GDP pattern;
- Rates of technical renewal;
- Energy balance structure and its dynamics.

In case there is the top-down macroeconomic model adjusted to the determining of the GHG emissions, the most precise estimates of the corridor may be got on its basis. If such model is not available, a certain simplified procedure may be proposed.

Step 1.1
Determining the interval that may involve the specified parameters.

The interval shall be determined for the GDP wherein the growth rates may be, for example, from 2.5 to 5%. Specialists in the area of macroeconomics may readily identify such interval.

It is important to know the share of the energy sector for the GDP structure. The respective specialists may make the required estimates.

The rates of technical renovation may be given as the share of new technologies or in the form of GHG specific emissions indicator per GDP unit.

The shares of diverse types of fuel give the energy balance structure.

Step 1.2
Determining the best and worst combination of parameters.

To get the upper boundary of the corridor, it is required to consider the highest rates of the GDP growth, to use the most energy-intensive structure, low rates of technological advance and the least favorable energy balance structure. To get the lower boundary of the corridor, everything should be done vice versa.

In actual practice such combinations are almost impossible. One of the reasons is the fact that at the higher rates of the GDP growth there are more resources for developing new technologies, and positive changes in the GDP structure are more likely. As a consequence, the upper boundary of the corridor will be overestimated and the lower one – underestimated. It will be required to narrow the corridor.

Step 2
The narrowing of the corridor.

To narrow the corridor, it is necessary to develop the likely scenarios for combination of major economic parameters that influence on the GHG emissions dynamics.

It is best to do this on the basis of the model. If such model is not available, the scenarios may be chosen by Delphi method.

Step 3
A probability of the "outlet" of real emissions outside the limits of the corridor should be determined at this stage.

Step 4
Determining the country's own contribution into the GHG emissions reduction.

On the model basis there may be distinguished no-regret & low-costs measures. The result of their applying may be considered as the country's own contribution to the GHG emissions reduction. The countries with the economy in transition should address this problem with a great caution and take into account all existing barriers while implementing similar projects. As a result, estimation of the country's contribution into GHG emissions reduction may appear to be lower than the aggregate outcome of applying the no-regret & low-costs actions.

In case the estimate of the emissions reduction potential is made on the basis of the bottom-up approach, the potential turns out to be obviously overestimated. Ultimately, the realistic value of the country's contribution into the GHG emissions reduction should be determined, and the upper boundary of the "narrow corridor" should be adjusted on this basis.

One more approach may be proposed for determining the value of the country's own contribution into the GHG emissions reduction. For example, if it is known that at the costs K the emissions reduction Q may be achieved, and it is also known that the price of one GHG ton on the carbon market is P, then the value of the country's own contribution in the GHG emissions reduction q may be determined by the formula $q = Q - K/P$.

To put it differently, the sources attracted from the sale of the unused quota $(Q - q)$ should be sufficient for financing the actions on GHG emissions reduction in the volume Q covering both of the country's own contribution q and the reductions corresponding to the sold part of the quota $Q - q$.

Step 5
Determining the constant part of the emissions budget.

The lower boundary of the "narrow" corridor is taken as the constant part of the emissions budget.

Step 6
Determining the boundaries of the variable (indexed) part of the emissions budget.

The variable (indexed) part of the budget is within the limits from the zero to the difference between the adjusted upper boundary of the corridor and the constant part of the budget.

Step 7
Indexation of the variable part of the budget.

Indexation of the variable part of the budget may be carried out in 2005, three years prior to the commitments on the emissions reduction coming into force. The indexation should be made in conformity with the procedures stipulated. The indexation procedure should be transparent. Once the indexation has been done, the emissions budget should not be adjusted any more.

It is feasible to choose the factor that influences the GHG emissions most of all as the indicator on the basis of which the indexation is being carried out.

For the countries with economy in transition the GDP should be selected as such indicator.

The Integrated Budget for Uzbekistan

The estimates presented below have only illustrative character.

Step 1
Determining the corridor that involves the emissions budget.

The wide corridor for the first budget period 2008-2012 may be determined within the limits from 550 to 700 million tCO_2. Therewith, the data available will enable to take into account only the possible fluctuations of the GDP.

Step 2
The narrowing of the corridor.

Having regard to the most probable scattering in the GDP values, the corridor may be narrowed up to 575-675 million t.

Step 3
There is lack of information required for the sensitivity analysis.

Step 4
Determining the country's own contribution into the GHG emissions reduction.

According to the conservative estimates, the country's own contribution may be determined as 5 million tCO_2 annually or 25 million t over the first budget period. Thus, the adjusted upper boundary of the corridor may amount to 650 million t.

Step 5
Determining the constant part of the emissions budget.

The volume of 575 million t is taken as the constant part of the emissions budget.

Step 6
Determining the boundaries of the variable (indexed) part of the budget.

The variable part of the budget constitutes 75 million t.

Step 7
Indexation.

The GDP is chosen as the parameter by which the indexation is being carried out since as to the NIS countries the GHG emissions are most sensitive to this indicator.

Average rates of the GDP growth over the period 2000-2005 shall be determined. Should they are less than 3%, the indexation coefficient is taken to be equal to zero. If they are 5% and more – it is equal to 1. In case they make up X% between 3 and 5%, the indexation coefficient shall be determined by the formula $K = (X - 3)/2$.

The variable part of the budget of 75 million t shall be multiplied by the indexation coefficient. The result gained should be added to the constant part of the budget.

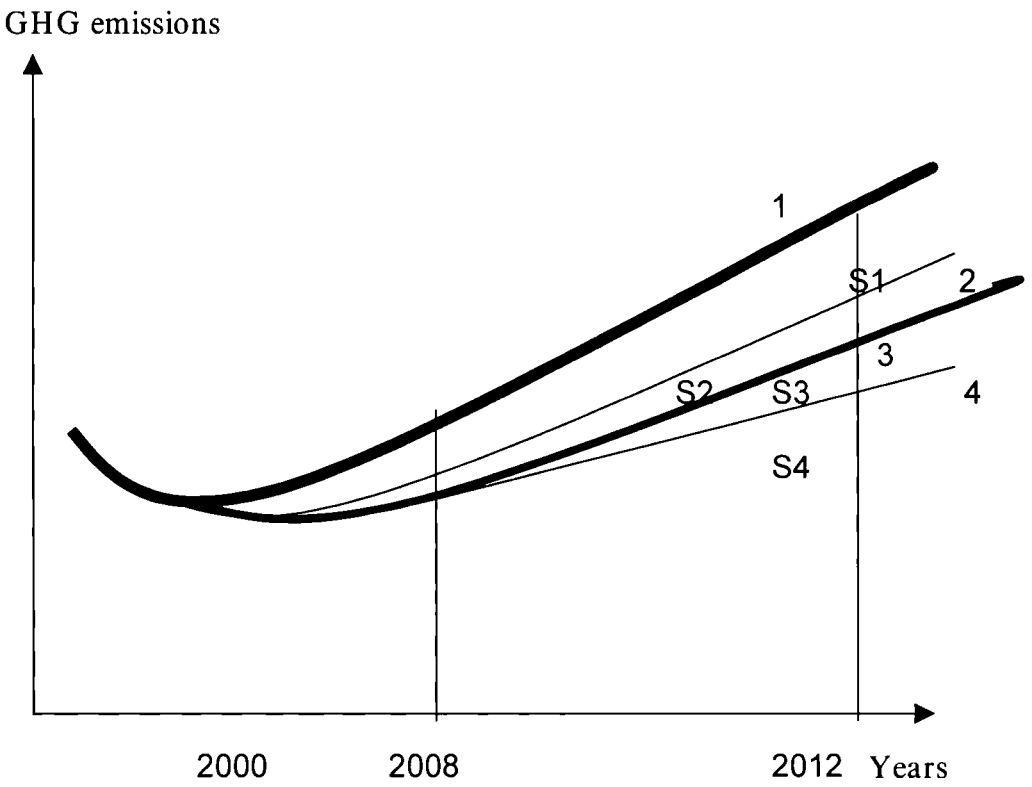

Figure 1

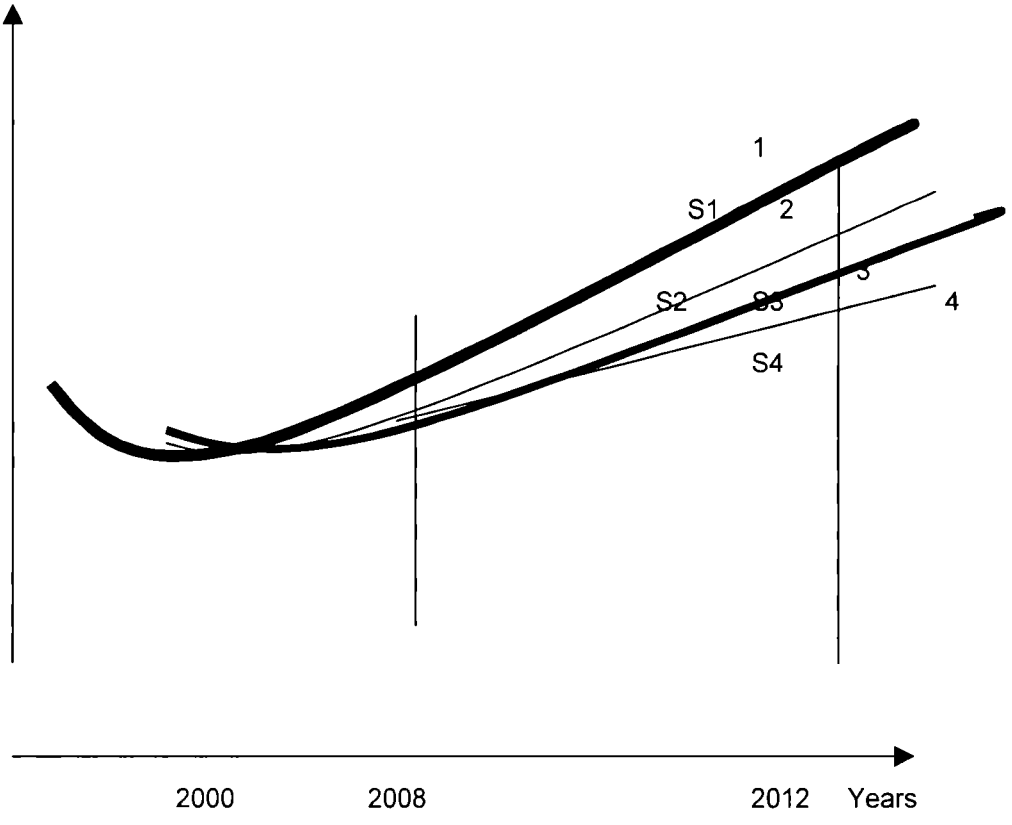

Figure 2

Synopsis
Tashkent Seminar: "A Third Way to Participation in the UN FCCC"
23-24 May, 2000

Hosted by the Institute for Strategic and Regional Studies under the President of the Republic of Uzbekistan

Sponsored by USAID through the EPIC and Global Training Development Programs.

At the Fifth Conference of the Parties to the UN Framework Convention on Climate Change (UN FCCC), Uzbekistan took a leadership role among transition economies seeking to find a way to reduce greenhouse gas emissions without damaging their prospects for continued growth. Under the leadership of the Uzbek delegation, a group, which calls itself "The Third Way" formed and agreed to examine the best ways for transition economies to participate in the Framework Convention more fully. Seven countries signed the memorandum indicating their intent to join the Third Way group – Armenia, Azerbaijan, Georgia, Moldova, Turkmenistan, Tajikistan and Uzbekistan. Two countries – Kazakhstan and Kyrgyzstan - signed as observers, indicating that they wanted to be informed of the "Third Way" as plans develop

The Third Way group is developing a proposal for how transition economies might participate in the so-called flexible mechanisms of the UNFCCC. . In exchange for taking on these voluntary commitments, the Third Way states hope to obtain the right to participate in these mechanisms (such as emissions trading, Joint Implementation projects) which are expected to attract investment in the modernization of the energy and other sectors.

The US government is supporting this meeting of the Third Way group, because the US has expressed its desire to find ways to attract «meaningful involvement» on the part of developing countries. This development is one of the most significant in negotiations with developing and transition countries. The Third Way group has been greeted with enthusiasm, and is proposing some strategies for transition economies similar to those being proposed by Argentina for developing countries. An Ambassadorial-level US delegation will be attending the meeting, and is hoping to hear what the Third Way representatives plan to present at the Sixth Conference of the Parties (COP-6) scheduled to take place in the Hague in November.

Draft Agenda
«A Third Way to Participation in the UN FCCC»
23-24 May 2000, Tashkent

8:30-9:00 Registration of participants
9:00 - 10:00 Opening Remarks
for Uzbekistan - Rafik Saifullin, Director of Institute for Strategic and Regional Studies
for US - Ambassador Hambley
for USAID – Ken McNamara
Brief commentary on the first Third Way meeting at COP-5: Alexander Golub
10:00-10:30 Coffee Break

10:30 -11:30: Panel 1: Central Asian Perspective
moderator - T. Sabonis-Helf
Kazakhstan - Irina Yesserkepova, KazNIIMOSK
Turkmenistan - Yuri Fedorov, National Focal Point
Tajikistan - B. Makhmadaliev, GlavHydromet
Kyrgyzstan - TBD.
Uzbekistan - V. Chub/ T. Ossoskova, GlavHydromet
11:30 - 12:30: Questions and discussion
13:00 - 14:00: Lunch at «Bakht» restaurant
14:30-15:30: Panel 2: Caucasus and Moldovan Perspective
moderator: M. Boyd
Georgia - T. Gzirishvilli - National Focal Point
Azerbaijan - M. Mansimov, Project Manager of Initial National Comm.
Armenia - A. Gabrielian, National Focal Point
Moldova - L. Treshilo, GlavHydromet
15:30-16:30 Questions and discussion
16:30-17:00 Coffee Break
17:00-17:30 Commentary from the US - Joseph Aldy
17:30- 18:00 Independent expert commentary - Alexander Golub

Day 2

10:00-10:30: Experience from Argentina - Dan Balzer
10:30-12:00: Round table discussion on the theme of «Prospects for Realizing a Third Way for Participation in the UN FCCC»
12:00- 12:30: Coffee Break
12:30-13:30: Final Session and Summary of results of the Seminar, preparation of recommendations for next steps - Moderator: A. Golub

[redacted]

To: Joe Aldy
Cc:
Fax #: 395-6870
Phone #:
From: Dan Balzer

Subject:
Date:
Pages: 2, including cover sheet

☐ Urgent ☐ For Review ☐ Please Comment ☐ Please Reply

Invite letter for 3rd Wkg meeting - may be useful for visa application.

Office of Global Change
Bureau of Oceans and International Environmental and Scientific Affairs
2201 C Street, Room 4330
Washington, DC 20520
tel.: (202) 647-4069
fax: (202) 647-0191

O'zbekiston Respublikasi Prezidenti huzuridagi Strategik va mintaqalararo tadqiqotlar instituti

Institute for Strategic and Regional Studies under the President of the Republic of Uzbekistan

Toshkent 700027, Xalqlar Do'stligi ko'chasi,2. Telefon (998-712) 45-87-04, faks (998-71) 120-66-28

Tashkent 700027, Khalklar Dostligi str.,2, Phone (998-712) 45-87-04, fax (998-71) 120-66-28

Fax: (101-202) 6470191

Dear Mr. Joseph Aldy,

The Institute for Strategic and Regional Studies under the President of the Republic of Uzbekistan (ISMI) invites you to take part in a seminar titled «A Third Way for Participation in the UNFCCC ».

The Seminar will be conducted by ISMI together with the GlavHydromet of the Republic of Uzbekistan, with the support of USAID through the EPIC and Global Training for Development Projects. The seminar will take place in our Institute, 23-24 May 2000, in the city of Tashkent..

The purpose of the seminar is to continue the discussions which we began in side meetings at COP-5. Participating in the seminar will be representatives from organizations involved in the problem of climate change in the following countries: Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan and Uzbekistan.

Additional information regarding administrative questions should be referred to the EPIC program in their Tashkent or Almaty offices:

In Almaty:	Tel. (3272) 65-46-95, 64-44-05 Fax: (3272) 64-68-49 e-mail: info@epic.almaty.kz
In Tashkent:	Tel/Fax: (371) or (998 71) 133-89-57 e-mail: tashepic@online.ru

Respectfully,

Rafik Saifullin
Director ISMI

UNCLASSIFIED

Printed By: Daniel K Balzer 05/17/2000 02:09:58 PM

TASHKENT 1878

From: AMEMBASSY TASHKENT MRN: 1878 Date/Time: 171156Z MAY 00
Subject: COUNTRY CLEARANCE FOR CLIMATE CHANGE DELEGATION, MAY 21-29 ICNbr: TED1793 Precedence: IMMEDIATE

Cable Text:

TED1793
ACTION OES-01

INFO LOG-00 NP-00 CEA-01 CIAE-00 DOEE-00 EB-00 EUR-01
UTED-00 VC-01 TEDE-00 INR-00 VCE-00 AC-01 DCP-01
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FAX TRANSMITTAL # of pages ▶ 3

To Joe Aldy	From Dan Balzer
Dept./Agency CEA	Phone # 736-7092
Fax # 395-6870	Fax # 647-0191

NSN 7540-01-317-7368 5099-101 GENERAL SERVICES ADMINISTRATION

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DEPT FOR OES/EGC: DANIEL BALZER
DEPT FOR EUR/CACEN: EDWARD BIRSNER

E.O. 12958: N/A
TAGS: OTRA, SENV, KSCA, UZ
SUBJECT: COUNTRY CLEARANCE FOR CLIMATE CHANGE DELEGATION, MAY 21-29

REF: SECSTATE 92058

1. EMBASSY TASHKENT WELCOMES THE ARRIVAL OF OES SPECIAL NEGOTIATOR FOR CLIMATE CHANGE AMBASSADOR MARK G. HAMBLEY, OES/EGC OFFICER DANIEL BALZER, AND COUNCIL OF ECONOMIC ADVISORS ECONOMIST JOSEPH ALDY, AND GRANTS COUNTRY CLEARANCE FOR THE PROPOSED VISIT TO TASHKENT FROM MAY 21 THROUGH MAY 29, 2000. EMBASSY WILL MAKE RESERVATION AT THE SHERATON HOTEL. EMBASSY EXPEDITER TO MEET AND ASSIST UPON ARRIVAL. COST OF AFTER-HOURS EXPEDITER IS 25 USD, WHICH COVERS EXPEDITER AND DRIVER OVERTIME. THIS FEE IS REIMBURSABLE AS A TRAVEL EXPENSE. ALL VISITORS TO UZBEKISTAN MUST HAVE A VALID UZBEK VISA. VISAS FROM OTHERS CIS COUNTRIES ARE NOT/NOT

Wrong. Embassy advises we will be at the Shodlik Palace Hotel as previously informed.

Withdrawal/Redaction Marker
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. cable	Country Clearance for Climate Change Delegation [partial] (1 page)	05/17/2000	b(7)(C), b(7)(F), b(6)

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RESTRICTION CODES

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RECOGNIZED, EVEN IN CASES OF TRANSIT. SEE PARA 5 FOR DETAILS.

2. CONTROL OFFICER FOR VISIT WILL BE(b)(6), (b)(7)c, (b)(7)f POLITICAL-ECONOMIC OFFICER, OFFICE TELEPHONE 998-71-120-54-50, CELLULAR TELEPHONE 998-712-31-53-65, TIE LINE 793-2324.

3. SECURITY: DUE TO RECENT EVENTS, BOTH IN UZBEKISTAN AND WORLDWIDE, VISITORS ARE REMINDED REMAIN VIGILANT WITH REGARD TO THEIR PERSONAL SAFETY. IN PARTICULAR, STRIVE TO MAINTAIN A LOW PROFILE; AVOID COMMERCIAL ESTABLISHMENTS THAT CATER TO WESTERNERS WHICH MIGHT BE TARGETS OF TERRORIST ATTACKS; AND MAINTAIN CLOSE CONTACT WITH THE REGIONAL SECURITY OFFICE FOR UPDATES ON THE SECURITY SITUATION.

4. TRAVEL FUNDS: POST SUPPORTS DEPARTMENT POLICY REQUIRING TRAVEL ADVANCES TO BE OBTAINED FROM THE TRAVELER'S SPONSORING OFFICE/POST. TASHKENT IS A CASH ONLY POST FOR TRAVEL PURPOSES EXCEPT FOR SOME HOTELS WHERE CREDIT CARDS ARE ACCEPTED. POST CASH RESERVES ARE INADEQUATE TO MEET THE TRAVEL ADVANCE NEEDS OF THE NUMEROUS VISITORS WE RECEIVE. U.S. BILLS OLDER THAN 1991 ARE NOT ACCEPTED IN TASHKENT AND SMALL BILLS ARE IN SHORT SUPPLY. VISA AND AMERICAN EXPRESS CARDS ARE ACCEPTED AT THE UZBEKISTAN, LE MERIDIEN, SHERATON AND INTERCONTINENTAL HOTELS. THE INTERCONTINENTAL, SHERATON AND LE MERIDIEN HOTELS WILL ACCEPT ONLY CREDIT CARDS FOR ROOM ACCOMMODATIONS ALTHOUGH MEALS IN THEIR RESTAURANTS MAY BE PAID EITHER BY CREDIT CARD OR IN SOUMS (LOCAL CURRENCY). THE UZBEKISTAN HOTEL WILL ACCEPT ONLY SOUMS IN ITS RESTAURANT. TRAVELERS' CHECKS ARE RARELY ACCEPTED AND DISCOURAGED IN TASHKENT. PLEASE BE INFORMED THAT AUTOMATIC TELLER MACHINES DO NOT EXIST IN UZBEKISTAN.

← I have inquired whether or not the Shodlik accepts plastic.

5. VISA: ALL VISITORS TRAVELING TO UZBEKISTAN--REGARDLESS OF THEIR LENGTH OF STAY AND PURPOSE OF VISIT--MUST OBTAIN AN UZBEK VISA. TRAVELERS SHOULD APPLY FOR UZBEK VISAS TWO WEEKS PRIOR TO THEIR EXPECTED TRAVEL. IT IS ALSO ESSENTIAL THAT TRAVELERS COMPLETE THE CURRENCY FORMS PRIOR TO LANDING IN TASHKENT AND KEEP THEM IN THEIR POSSESSION UNTIL DEPARTURE FROM UZBEKISTAN UNLESS THEY ARE TRAVELING ON A DIPLOMATIC PASSPORT.

6. CLIMATE/DRESS: WEATHER CONDITIONS IN UZBEKISTAN CAN CHANGE FREQUENTLY DURING THE SPRING SEASON FROM NEAR-FREEZING TEMPERATURES AND SUDDEN RAIN TO PLEASANT, WARM AND DRY PERIODS. TEMPERATURES RANGE FROM 45-95 FAHRENHEIT. NORMAL DRESS IS STANDARD BUSINESS ATTIRE DURING WORKING HOURS. TASHKENT IS A COSMOPOLITAN CITY WHERE MOST MODERN DRESS IS ACCEPTED. HOWEVER, DRESS OUTSIDE OF TASHKENT IS MORE CONSERVATIVE. IN CASE OF TRAVEL TO SUCH AREAS, PROVOCATIVE DRESS SHOULD BE AVOIDED.

7. HEALTH ISSUES: FOOD AND WATERBORNE DISEASES ARE COMMON SUCH AS SALMONELLA, HEPATITIS A & B, TYPHOID AND MENINGITIS. TRAVELERS ARE ADVISED TO DRINK ONLY BOTTLED/BOILED WATER AND TO EAT ONLY FRUITS AND VEGETABLES THAT HAVE BEEN COOKED AND PEELED. UNDER-COOKED MEAT SHOULD BE AVOIDED AS WELL. DUE TO POOR SANITATION, TRAVELERS SHOULD AVOID EATING UNCOOKED DAIRY PRODUCTS AND MOST FOOD SOLD ON THE STREET.

MO'NEAL
NNNN

End Cable Text

Printed By: Daniel K Balzer 05/17/2000 02:09:58 PM

1 inventory
2 macro econ
3 policies

Mtg w/ Club

next steps domestically
- analysis
- policies
- projects

will explain macro-economic analysis
need to dev climate center in Uzbek
suffer shortage of experts; ∴ need assistance
succeeded in demonstrating the importance of this issue to this govt, want to help other countries in region do the same

extent of benefit for countries that take on commitments
- key question for this conference
need addl research
a lot of uncertainties @ econ dev

Natl Strategy Program for GHGs
- passed on to ministries for approval
- ID'ed following actions: specific projects
  - need ministries' support + investment
  - key is project finance

removal of energy barriers in municipal sector
- finalize feasibility study in several months
- looking for investor currently

CEA might consider laying foundation to attract investment streaming rights

Mtg w/ Gafurov, 1st Dep Min, Ministry of Macroeconomics + Statistics

have projects - need investment
want to have right to participate in mechanisms
- positively influence investment
- expect substantial support of US

2 projects in Uzbek
1) removing barriers in mini H_2O + energy
GEF/WB funded project
2) CDM project (how to implement)

ready to learn Argentina experience

5/23 3rd Way Group Mtg, Tashkent

Saifulin - intro
- key component of sustainable development
- it is also a strategic issue

Hambley - intro
POTUS interest, concern, challenge of 21st C
common but differentiated responsibilities...

McNamara - intro

Golub - emissions in this region
impact of emis on climate
common but differentiated, but can't keep this separation
but A1 + non A1 b/c all emis affect climate
- all countries will have to take commitments at some point
NIS countries' interest in 3rd Way & Baku
early tgt-takers will get a premium
opportunities for NIS given transition
investment through KP flex mechs
- CDM has limitations, more reductions, more investment under tgt
opportunity to ↓ emis by switching from coal to gas
commitments must be bindg, but also must be consistent w/ sus dev
1st Way - A1 - differentiation in tgts, base years
2nd Way - non-A1,? or just Annex B
3rd Way - Argentina, NIS consultations & COP-5
3rd Way Group Principles
1) emis budget based on studies, must be validated by analysis
2) emis budget can't constrain econ dev, but deliver env benefits
3) emis budget must be below BAU
4) emis budget must allow full participation in flex mechs

Fund for Nature Protection — translation for EDF

5/23 3rd Way Group Mtg, Tashkent

— trading, JI, CDM
many technical issues involved we will discuss today

Yessekhepova (Kaz) - supports efforts of all those here
4/99 Kaz asked to join A1
obj - envl + econ benefits
→ ∴ interest in quantitative tgt
doing program of dev - will allow them to forecast emis
Natl strategy to ↓ GHGs under development
dev institutions - emis inventory
system of natl stds for GHG programs
- interdeptal center to undertake this work
welcome opportunity to share experience w/ those
gathered here - esp macro forecasts + emis
appreciate AID/EPEC assistance + technical support
Mansimov (Aze) - is your info in addition to your natl comm.
Yessekhepova - yes, we've now used official macro forecast
Osseliva (Uzb) - you already have forecast?
Yessekhepova - forecast thru 2015 now approved, now need their
assistance to finish
we have 3 different forecasts, but need to refine consistent
w/ concerns of Agency of Strategic Planning
Gabrielyan (Arm) - to take on a tgt, won't you have to amend
K?, when do you think this happens, what will be your
role in flex mechs esp CDM - buyer or seller
Yessekhepova - we are now ready to negotiate quantitative commitments
plan to present proposals of quant tgts @ COP-6

5/23

want to take + use special conditions as EIT in taking on tgt - eg, may use 1992 base year - data are more transparent

Fedorov (Turkmenistan)

- problems + challenges, esp in plan + inventory in natl comm
- govt commission coordinates all clim change issues in Turk
- in Dec 98, Turk ratified KP; in Dec 99 - concept of dev
- 2010 development plan, began to look into emis forecast based on this plan
- in unique situation - 100% nat gas provision in industry, hholds. - ∴ no opportunities for fuel switching
- clim change part of natl plan of action on env.
- Pres proposed hi-level commission for env actions, incl clim change
- just finalized natl communication
- need experience w/ CDM + KP

Yesserkepova - what's potential for renewable projects

Fedorov - no specific projects, distributed heat project thru GEF made consideration - see how it could ↑ energy efficiency some potential for solar, wind - but rather expensive - current policy aimed @ nat gas

Yellin - in natl comm - how do emis compare to 1990

Fedorov ~~Yesserkepova~~ - current emis will exceed 1990

Maximov - don't understand your view of 3rd way

Fedorov - 3rd way isn't clear, we can do research before ID approaches to implement KP, just interested in negotiating framework now

Maximov - ↓ GHGs only thru new tech now based on your presentation

Fedorov - ↓ GHGs should be thru ↑ efficiency (end-use + generating tech)

Gabrielyan - our GEF project, is like yours, but is not very successful, yours? what is your vision of future emis? I expect an increase at least above 10% growth - could you get a fgt

Fedorov - still working on forecast based on approved dev strategy

Grab - how much emis will you have in first commitment

Fed - 60% T above 1990 in 2010

Golub - how do emis grow relative to GDP, 3d day could allow us dev

Fed -

Makhmadaliyev (Tajik) - ratified FCCC in 98

nothing has been done in Taj, but govt programs on clim ch

Natl ecological education program have some work on clim change

1st natl comm hasn't been developed yet, but have a draft

will have seminar on clim change soon, to finalize natl com starting in June

Annabliev (Kyrgyzstan) - recently signed FCCC + dispersion work on ratifying KP

will need tech assistance

central Asia is basically 1 economic region - study on Kyrg emis will need to be in this context

only have data back to 90s, need to improve quality

energy - lg coal reserve, but poor quality so burn more to have coal each yr

survey of energy, + of forest/timber-cutting for fuelwood

a lot of hydro potential

need tech + fin assistance from foreign countries for hydro projects to ↓ GHGs

now only studying possibilities for Kyrg on 3rd way

Gabr - just thinking re 3rd way, but will compile/collect all GHG statistics - we can share our experience

Annan - just proposed to do so,

Yessekhegara - hydro export share of total energy exports

Annan - ~20-30%, energy export, also export coal + gas to Uzb.

70% of exports is hydro exports

Sebris-Helt - have not received from FCCC re your ratification

Annan - ratified 1/14/00, then sent to secy-general

~~G.H.S~~

Ososhava (Uzb) - ratified KP in 1999

1st natl comm re COP-5 - emis inventory, emis forecast, energy-saving program

84% of GHG emis from energy

have some prelim 98 + 99 emis, CH_4 ↑ 0.1%, CO_2 ↑ small, but CH_4 has grown thru this decade (+15%: 1990-1997)

66% of emis are CO_2, 28% of emis are CH_4

need to revise inventory, esp focus on CH_4 leakages

- IPCC methodologies may not be appropriate - may need to focus on local emis factors

emis/GPP 1990: 5.6 2000: 4.5 2010: 4.5

very uncertain GDP forecast, uncertainty re tech Δ, structural returns...

ID'ed possible CDM projects, but most beneficial projects couldn't be pursued thru CDM - low or neg incremental costs, ∴ low GHG prices - not profitable for Uzb

3d way to limit not reduce emis, should not constrain econ dev, allow participation in all KP mechs
Reiterate 4 principles
Work program needs to in
- specification of inventory (esp CH_4)
- improve reliability of forecasts (currently have 3 scenarios)
- should dev way of indexation of emissions
  - per GDP, per capita, some other way
- should incl public participation

W/o firm analysis, won't be able to dev emis budgets

★ Gabr - why is trading more beneficial than CDM
Osos - everyone should focus on what's best for them
Gabr - we are talking e 3d way of CDM? would it not be in use
would there be cases where it would be useful

Shvangiradze (Georgia)
e Kyoto - Georgia indicated it would be willing to take on a voluntary commitment, but not ready to announce ##
GA ready to take on a commitment
Priority for GA is econ dev, ∴ clim change is addl to econ dev
Recognize that clim change can help attract new investment + new tech to country
2 problems - dec 10, dec 11 e COP-5 - re: capacity-bldg, ~~xx~~
→ non A1 EITs left out, also in case of expert review of natl communications need a group to represent + protect interests of non A1 EITs
→ then it should put 3d way approach on agenda
Concern e being able to pay FCCC fees

pilot projects would be useful to demonstrate implementation of KP
GA presented natl comm @ COP-5
GEF project - similar to Armenia's

profound revise = expert review in translation

- need capacity-bldg in industry + energy sectors, esp in collecting information → then will start 2d communication

Mansimov (Azer)

Finalizing 1st natl comm - will present @ COP-6
Vice-PM heads GCC commission
1990: 8.5 tons per capita (comparable w/ European avg)
1994:
gradual improvement since 1995 in economy
use diesel fuel, for elec but have now found nat gas + will substitute for electricity; also some hydro potential
concern @ GHGs ↑ from oil + gas industry
huge potential to ↓ GHGs ~~[illegible]~~, need to do more studies
plan to do macro forecast + will be wrapped up by end of yr.
by 2025, = 1990 + 100% - by Min of Economy
Azer govt not against involvement in 3d way group

Gabrielyan (Arm)
Kyoto - offered to take on voluntary tgt
ready to vol. commitment
3 forecasts

Moldova

natl comm in final stages

1997 emis = 1/3 1990 emis

use macroeconomic analysis under Moldova 21 program -

probable + optimistic scenarios, the latter are used

will not achieve 1990 emis level by final yr of forecast (2010 or 2020?)

lots of uncertainty in scenarios

ready for GHG reducing commitment

lack of capital

May 24

Argentina discussion
q's re finding, process, how to index

Discussion

Aze — What are next steps – this group can act as a coalition re COP
if we are to announce, we need to begin research → complex effort,
need to do careful macro forecasts + emis forecasts, then predict tgts
Need advice from experienced people in different countries
Should we work together or as regions? Some research can be
generalized, some will be country-specific
Challenges in collecting data, dealing w/ corruption, uncertainties in data
Group must be est by COP-6 - announcement

Steps

Sasha
① Political announcement re COP-6; note 4 principles
② Research work that needs to be done, how to do it, when
③ Joint work or separate
④ What needs to be done by COP-6

? — Very early to decide now re polit announcement, better to focus on other
issues - can't decide for our govts here re taking tgts
Should discuss amending KP

Aze — Each country will decide tgt independently
Announcement has to be prepared officially by govt

Arm — These countries should express willingness
We should make recommendations as a group of experts

Uzbek Foreign Ministry?

May 24

Yelkin — Have to inform govts of results of this conference + then govts decide

Osashvra — Polit announcement does need to be decided by each country govt first
Uzbek govt will decide soon

Fedorov — Went back to govt after COP-5 w update
Believe that Turkmen will support this group's work

Georgia — Ready + interested to take on commitments
Need to submit a document to each govt for them to consider
- what we have in hand is a start
Govt needs to know principles as well as how it could be implemented
Need to jointly present our position
Need to do a document from this group to our govts, so they can decide

Uzbek Minister Mirzaev — We should help each other, and take comparable positions
Support of US will play essential role
Need credible statistics
Should support 3d way as 1 team

Sarka — countries in LAm + other regions will likely support this 3d way

Moldova — We support principles
Necessary to make polit statement @ COP-6 + declare principles

Litvak — recommends that a small group compile a document that all would take back to govts

May 24

Tajik — We never signed a memorandum
We support plan for 3d way, but I must confer w/ govt first
This will be discussed @ June Tajik workshop
I will inform govt the need + importance of 3d way groups, but govt will need to decide
Tajik not @ COP-4 or COP-5

Sasha — Propose an editorial cmte to write a document to ~~draft~~ reflect this discussion, w/ recommendations
Rec 1 - work together, + meet once more before COP-6
need an analytic working paper to be shared w/ govts

AN EXAMPLE OF CALCULATING THE GREENHOUSE GAS EMISSIONS BUDGET FOR UZBEKISTAN

Alexander Golub, Harvard University

The objective of this document is to propose preliminary estimates of the emissions budget for Uzbekistan as a country that has expressed its wish to enhance the degree of its participation in the UN Framework Convention on Climate Change in the form of choosing the so-called *Third Way Concept.*

No generally recognized and established procedures for determining such a budget exist. We suppose that they will be elaborated in the course of negotiations among the Parties to the Convention with active participation of the countries that have expressed their desire to follow the *Third Way.*

In any event, the approaches for establishing the emissions budget should comply with the fundamental principles have been previously discussed by the Action Committee. These principles are as follows:

- The emissions budget should be based on comprehensive studies to substantiate the undertaking of voluntary commitments at a certain level;
- Emissions reduction commitments should not put any obstacles in the way of social and economic development;
- When undertaking the commitments, the countries proceed from the necessity of making their own contribution to ensure ecological benefits for the planet as a whole;
- The undertaking of the voluntary commitments of emissions limitations should give to the country the opportunity to participate in all flexible mechanisms under the Kyoto Protocol (KP) including emissions trading.

It is supposed that this example of determining the emissions budget may serve as an illustration how to implement the indicated principles in concrete figures as well as the basis for further activity of the Action Committee with the aim of developing the formalized attitude of the Action Committee to the problem concerning some approaches to determine the voluntary commitments (emissions budgets).

In the conceptual plan, the estimates provided below are based on the Draft *Third Way Concept* of 01.04.2000 prepared by Harvard University. As for the data on GHG emissions in Uzbekistan and the emissions forecast and for information concerning major indicators of social and economic development, the principal sources are the First National Communication of the Republic of Uzbekistan, WB NSS and operating materials prepared within the framework of the EPIC Program. It is highly desirable to expand this information base and, first of all, improve the general economic information. The invoking of additional information sources will make it possible to enhance the quality of forecasts and decrease the risks associated with the specified voluntary commitments (emissions budget).

Concept of the Group *Third Way* and the Integrated Approach for Establishing the Emissions Budget

In the above-mentioned Draft Concept of 01.04.2000, the fundamental issues of the *Third Way Concept* were discussed in detail. The analysis we carried out suggested that for today the integrated approach for determining the emissions budget to a greater degree meets the specific character of the New Independent States' (NIS) economies in transition.

The direct indexation of the emissions budget won't create adequate conditions for more complete participation of the countries in the flexible mechanisms under the KP. Thus it is proposed to consider a new, the so-called integrated, approach that provides for establishing the constant and variable components of the emissions budget.

With regard to the specific features of the economies in transition, some aspects might be noted that should be taken into consideration when setting the emissions budget for the "new countries".

Following are some features of the economy of transition period:

- Uncertainty of forecasting GDP dynamics and its pattern.
- Uncertainty of the pace and extent of technological renovation.
- Underdevelopment of the capital market.
- Poor development of market incentives.
- High discount rate (and, as a consequence, predominance of short-term motivation).
- Low rate of the internalization of externalities.

From the standpoint of realizing the long-term program on GHG emissions reduction, it is essential to establish the emissions budget as quickly as possible and to commence implementing the investment projects on emissions reduction as soon as possible. To do this requires sale on a forward or option basis some part of the emissions quota and to create a financial mechanism for reinvesting the funds gained.

It's our opinion that the *Third Way* Group could make the following proposal: to divide the emissions budget into two parts. The first part of it the country should receive immediately. Its determination should be based on the "low" GDP forecast, and the country will receive the second part within several years when the GDP real dynamics will be estimated.

The first part is constant and the second one is variable. To gain greater insight into the idea of the integrated approach, one should refer to Figure 2. Curve 1 corresponds to the GHG emissions forecast at the higher rate of the GDP growth and when the country chooses the resource-intensive path of development. Curve 2 fits the GHG emissions forecast at the high rate of the GDP growth but when the country chooses the resources-saving path of development. If it is known that the development will follow the "high" scenario, the emissions budget could be set at Curve 2 level (Fig. 1). The aggregate emissions budget would be equal to the total of the areas S4 + S3 + S2.

Curve 3 corresponds to the GHG emissions forecast at the "low" scenario of the GDP growth and at the resource-intensive way of development, and Curve 4 – at the resources-saving path of development.

Provided it is known that the development will follow the "low" scenario, the emissions budget should be set at the level of Curve 4 (it would be equal to the area S4). Thus, the emissions budget is confined between Curves 2 and 4 (Fig. 1). The constant part S4 may be separated from the budget and fixed at the very beginning without its revision thereafter. In addition, the interval may be set where the variable part S3 + S2 will be confined, and the rules should be specified whereby the emissions budget will be indexed within the variable part. The country will receive it several years prior to the commencement of the first budget period. Its value can't exceed S3 + S2. The part S3 + S2 that the country will receive shall be related to the economic index that in the lowest degree depends upon the country's efforts in GHG emissions reduction prior to the beginning of the first budget period. For example, there may be proposed average annual rates of the GDP growth.

By way of illustration let us consider that the "low" scenario of the GDP implies a GDP average annual growth of 3% and the "high" scenario – 6%. In case the GDP growth rates are lower, for example, 4 % per year, the additional emissions budget will represent (S3 + S2)/3.

Estimating the Value of the Integrated Emissions Budget for Uzbekistan (Preliminary Estimates)

First we'll describe the formal algorithm on constructing the integrated budget, and then we'll apply it for constructing the emissions budget of Uzbekistan.

Algorithm for Constructing the Integrated Budget

Step 1
Determining the corridor that involves the emissions budget.

The maximum and minimum forecasts for GHG emissions should be taken to determine this corridor. As we specified it earlier in the process of analysis of GHG emissions dynamics in the countries with economies in transition, there are several major factors that determine the emissions dynamics. They are as follows:

- GDP dynamics;
- GDP pattern;
- Rates of technical renewal;
- Energy balance structure and its dynamics.

In case there is the top-down macroeconomic model adjusted to the determining of the GHG emissions, the most precise estimates of the corridor may be got on its basis. If such model is not available, a certain simplified procedure may be proposed.

Step 1.1
Determining the interval that may involve the specified parameters.

The interval shall be determined for the GDP wherein the growth rates may be, for example, from 2.5 to 5%. Specialists in the area of macroeconomics may readily identify such interval.

It is important to know the share of the energy sector for the GDP structure. The respective specialists may make the required estimates.

The rates of technical renovation may be given as the share of new technologies or in the form of GHG specific emissions indicator per GDP unit.

The shares of diverse types of fuel give the energy balance structure.

Step 1.2
Determining the best and worst combination of parameters.

To get the upper boundary of the corridor, it is required to consider the highest rates of the GDP growth, to use the most energy-intensive structure, low rates of technological advance and the least favorable energy balance structure. To get the lower boundary of the corridor, everything should be done vice versa.

In actual practice such combinations are almost impossible. One of the reasons is the fact that at the higher rates of the GDP growth there are more resources for developing new technologies, and positive changes in the GDP structure are more likely. As a consequence, the upper boundary of the corridor will be overestimated and the lower one – underestimated. It will be required to narrow the corridor.

Step 2
The narrowing of the corridor.

To narrow the corridor, it is necessary to develop the likely scenarios for combination of major economic parameters that influence on the GHG emissions dynamics.

It is best to do this on the basis of the model. If such model is not available, the scenarios may be chosen by Delphi method.

Step 3
A probability of the "outlet" of real emissions outside the limits of the corridor should be determined at this stage.

Step 4
Determining the country's own contribution into the GHG emissions reduction.

On the model basis there may be distinguished no-regret & low-costs measures. The result of their applying may be considered as the country's own contribution to the GHG emissions reduction. The countries with the economy in transition should address this problem with a great caution and take into account all existing barriers while implementing similar projects. As a result, estimation of the country's contribution into GHG emissions reduction may appear to be lower than the aggregate outcome of applying the no-regret & low-costs actions.

In case the estimate of the emissions reduction potential is made on the basis of the bottom-up approach, the potential turns out to be obviously overestimated. Ultimately, the realistic value of the country's contribution into the GHG emissions reduction should be determined, and the upper boundary of the "narrow corridor" should be adjusted on this basis.

One more approach may be proposed for determining the value of the country's own contribution into the GHG emissions reduction. For example, if it is known that at the costs K the emissions reduction Q may be achieved, and it is also known that the price of one GHG ton on the carbon market is P, then the value of the country's own contribution in the GHG emissions reduction q may be determined by the formula $q = Q - K/P$.

To put it differently, the sources attracted from the sale of the unused quota $(Q - q)$ should be sufficient for financing the actions on GHG emissions reduction in the volume Q covering both of the country's own contribution q and the reductions corresponding to the sold part of the quota $Q - q$.

Step 5
Determining the constant part of the emissions budget.

The lower boundary of the "narrow" corridor is taken as the constant part of the emissions budget.

Step 6
Determining the boundaries of the variable (indexed) part of the emissions budget.

The variable (indexed) part of the budget is within the limits from the zero to the difference between the adjusted upper boundary of the corridor and the constant part of the budget.

Step 7
Indexation of the variable part of the budget.

Indexation of the variable part of the budget may be carried out in 2005, three years prior to the commitments on the emissions reduction coming into force. The indexation should be made in conformity with the procedures stipulated. The indexation procedure should be transparent. Once the indexation has been done, the emissions budget should not be adjusted any more.

It is feasible to choose the factor that influences the GHG emissions most of all as the indicator on the basis of which the indexation is being carried out.

For the countries with economy in transition the GDP should be selected as such indicator.

The Integrated Budget for Uzbekistan

The estimates presented below have only illustrative character.

Step 1
Determining the corridor that involves the emissions budget.

The wide corridor for the first budget period 2008-2012 may be determined within the limits from 550 to 700 million tCO_2. Therewith, the data available will enable to take into account only the possible fluctuations of the GDP.

Step 2
The narrowing of the corridor.

Having regard to the most probable scattering in the GDP values, the corridor may be narrowed up to 575-675 million t.

Step 3
There is lack of information required for the sensitivity analysis.

Step 4
Determining the country's own contribution into the GHG emissions reduction.

According to the conservative estimates, the country's own contribution may be determined as 5 million tCO_2 annually or 25 million t over the first budget period. Thus, the adjusted upper boundary of the corridor may amount to 650 million t.

Step 5
Determining the constant part of the emissions budget.

The volume of 575 million t is taken as the constant part of the emissions budget.

Step 6
Determining the boundaries of the variable (indexed) part of the budget.

The variable part of the budget constitutes 75 million t.

Step 7
Indexation.

The GDP is chosen as the parameter by which the indexation is being carried out since as to the NIS countries the GHG emissions are most sensitive to this indicator.

Average rates of the GDP growth over the period 2000-2005 shall be determined. Should they are less than 3%, the indexation coefficient is taken to be equal to zero. If they are 5% and more – it is equal to 1. In case they make up X% between 3 and 5%, the indexation coefficient shall be determined by the formula $K = (X - 3)/2$.

The variable part of the budget of 75 million t shall be multiplied by the indexation coefficient. The result gained should be added to the constant part of the budget.

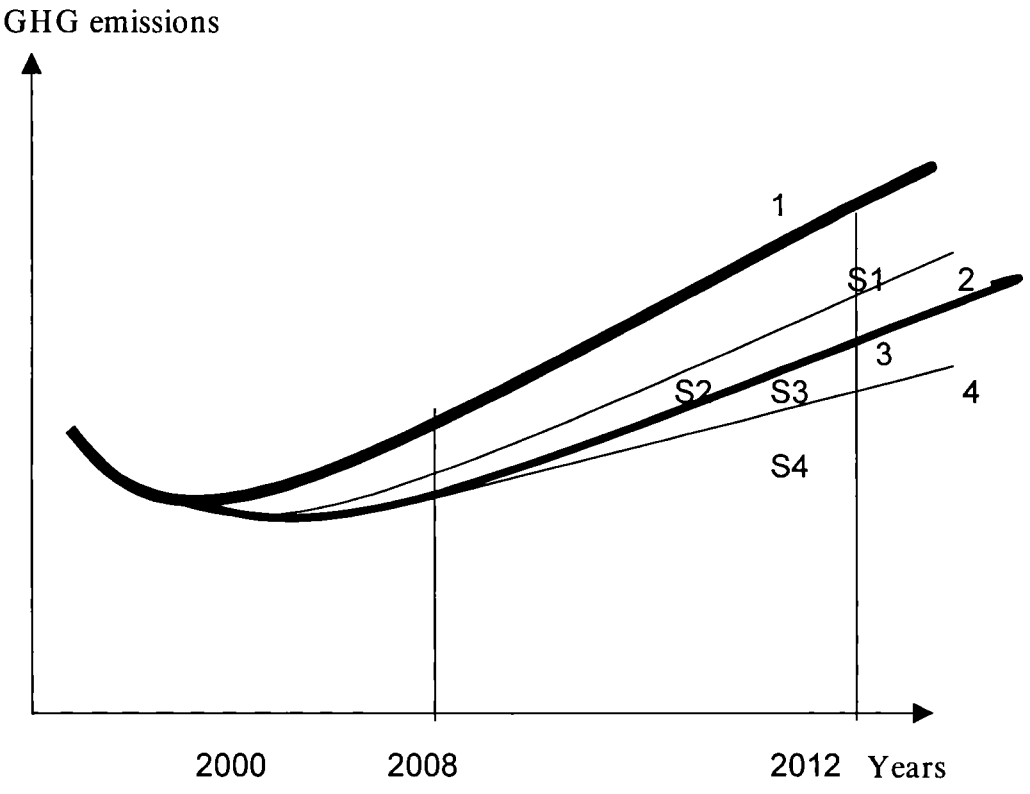

Figure 1

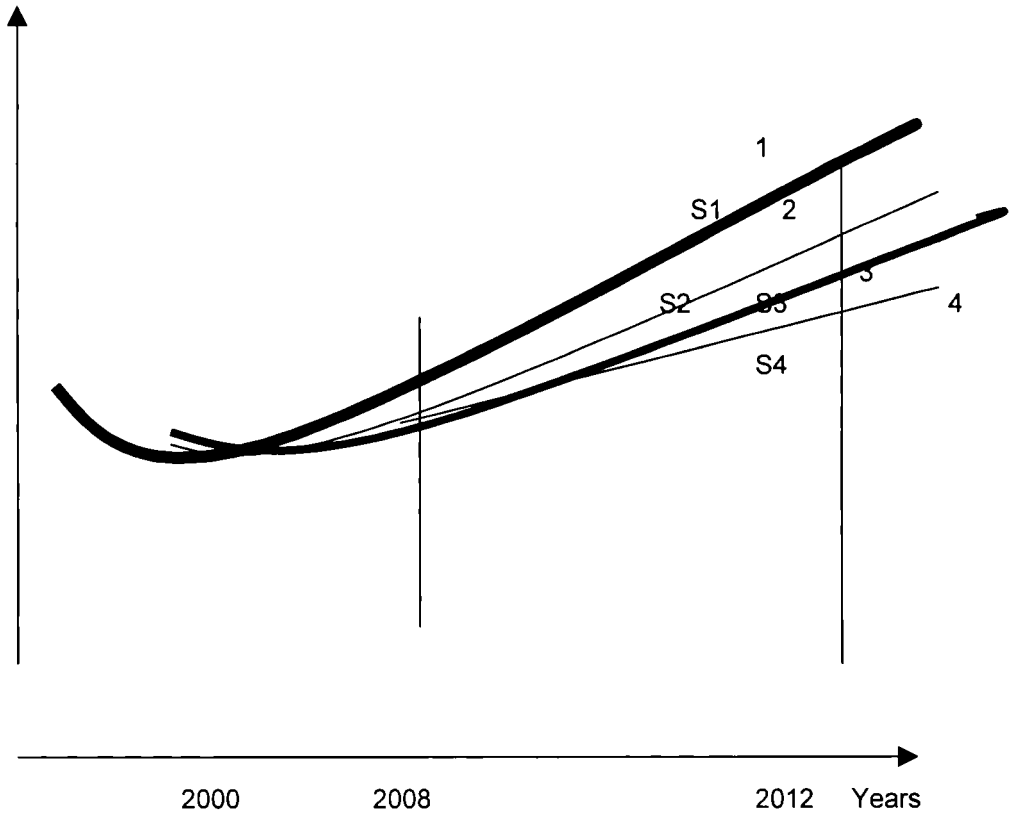

Figure 2

Synopsis
Tashkent Seminar: "A Third Way to Participation in the UN FCCC"
23-24 May, 2000

Hosted by the Institute for Strategic and Regional Studies under the President of the Republic of Uzbekistan

Sponsored by USAID through the EPIC and Global Training Development Programs.

At the Fifth Conference of the Parties to the UN Framework Convention on Climate Change (UN FCCC), Uzbekistan took a leadership role among transition economies seeking to find a way to reduce greenhouse gas emissions without damaging their prospects for continued growth. Under the leadership of the Uzbek delegation, a group, which calls itself "The Third Way" formed and agreed to examine the best ways for transition economies to participate in the Framework Convention more fully. Seven countries signed the memorandum indicating their intent to join the Third Way group – Armenia, Azerbaijan, Georgia, Moldova, Turkmenistan, Tajikistan and Uzbekistan. Two countries – Kazakhstan and Kyrgyzstan - signed as observers, indicating that they wanted to be informed of the "Third Way" as plans develop

The Third Way group is developing a proposal for how transition economies might participate in the so-called flexible mechanisms of the UNFCCC. . In exchange for taking on these voluntary commitments, the Third Way states hope to obtain the right to participate in these mechanisms (such as emissions trading, Joint Implementation projects) which are expected to attract investment in the modernization of the energy and other sectors.

The US government is supporting this meeting of the Third Way group, because the US has expressed its desire to find ways to attract «meaningful involvement» on the part of developing countries. This development is one of the most significant in negotiations with developing and transition countries. The Third Way group has been greeted with enthusiasm, and is proposing some strategies for transition economies similar to those being proposed by Argentina for developing countries. An Ambassadorial-level US delegation will be attending the meeting, and is hoping to hear what the Third Way representatives plan to present at the Sixth Conference of the Parties (COP-6) scheduled to take place in the Hague in November.

Draft Agenda
«A Third Way to Participation in the UN FCCC»
23-24 May 2000, Tashkent

8:30-9:00 Registration of participants
9:00 - 10:00 Opening Remarks
for Uzbekistan - Rafik Saifullin, Director of Institute for Strategic and Regional Studies
for US - Ambassador Hambley
for USAID – Ken McNamara
Brief commentary on the first Third Way meeting at COP-5: Alexander Golub
10:00-10:30 Coffee Break

10:30 -11:30: Panel 1: Central Asian Perspective
moderator - T. Sabonis-Helf
Kazakhstan - Irina Yesserkepova, KazNIIMOSK
Turkmenistan - Yuri Fedorov, National Focal Point
Tajikistan - B. Makhmadaliev, GlavHydromet
Kyrgyzstan - TBD.
Uzbekistan - V. Chub/ T. Ossoskova, GlavHydromet
11:30 - 12:30: Questions and discussion
13:00 - 14:00: Lunch at «Bakht» restaurant
14:30-15:30: Panel 2: Caucasus and Moldovan Perspective
moderator: M. Boyd
Georgia - T. Gzirishvilli - National Focal Point
Azerbaijan - M. Mansimov, Project Manager of Initial National Comm.
Armenia - A. Gabrielian, National Focal Point
Moldova - L. Treshilo, GlavHydromet
15:30-16:30 Questions and discussion
16:30-17:00 Coffee Break
17:00-17:30 Commentary from the US - Joseph Aldy
17:30- 18:00 Independent expert commentary - Alexander Golub

Day 2

10:00-10:30: Experience from Argentina - Dan Balzer
10:30-12:00: Round table discussion on the theme of «Prospects for Realizing a Third Way for Participation in the UN FCCC»
12:00- 12:30: Coffee Break
12:30-13:30: Final Session and Summary of results of the Seminar, preparation of recommendations for next steps - Moderator: A. Golub

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USAID/Environmental Policies and Institutions for Central Asia (EPIC) Program
USAID/Global Training for Development (GTD) Project

In collaboration with

Institute for Strategic and Regional Studies under the President of the Republic of Uzbekistan

present

"A Third Way to Participation in the United Nations' Framework Convention on Climate Change"

Training Seminar

23-24 May, 2000
Tashkent, Uzbekistan

ЮСАИД/Проект Природоохранной Политики и Усиления Организационной Структуры Управления Ресурсами Центральной Азии
ЮСАИД/Международный Проект Обучения для Развития ГЛОБАЛ

В сотрудничестве с

Институтом Стратегических и Региональных Исследований при Президенте Республики Узбекистан

Представляют семинар

"Третий путь подхода к Рамочной Конвенции ООН по изменению климата"

23-24 Мая, 2000 г.
Ташкент, Узбекистан

"A Third Way to Participation in the UN FCCC"

23-24 May 2000

Tashkent, Uzbekistan

Agenda

Tuesday, May 23

8:30	Registration
9:00	Opening Remarks for Uzbekistan – Rafik Saifulin, Institute for Strategic and Regional Studies for US – Ambassador Hambley for USAID – Ken McNamara Brief commentary on the First Third Way meeting at COP-5: Alexander Golub
10:00	Coffee Break
10:30	Panel 1: Central Asia Perspective moderator – T. Sabonis-Helf Kazakhstan – I. Yesserkepova, KazNIIMOSK Turkmenistan - Yu. Fedorov, National Focal Point Tajikistan – B. Makhmadaliyev, GlavHydromet Kyrgyzstan – M Amanaliyev, Ministry of Nature Protection Uzbekistan – V. Chub/T. Ososkova, GlavHydromet
11:30	Questions and discussion
13:00	Lunch at "Bakht" restaurant
14:30	Panel 2: Caucasus and Moldova Perspective moderator: M. Boyd Georgia – M. Shvangiradze, National Focal Point Azerbaijan – M. Mansimov, Project Manager of Initial National Comm.

Armenia – A. Gabrielyan, National Focal Point

Moldova – L. Treschilo, GlavHydromet

15:30 Questions and discussion

16:30 Coffee Break

17:00 Commentary from the US – Joseph Aldy

17:30 Independent expert commentary – Alexander Golub

Wednesday, May 24

10:00 Experience from Argentina – Daniel Balzer

10:30 Round table discussion on the theme of "Prospects for Realizing a Third Way for Participation in the UN FCCC"

12:00 Coffee Break

12:30 Final Session and Summary of results of the Seminar, preparation of recommendations for next steps – Moderator: A. Golub

14:00 Reception

Семинар «Третий путь подхода к Рамочной Ковенции ООН по изменению климата»
23-24 мая, 2000
г. Ташкент, Узбекистан

"A Third Way to Participation in the UN FCCC"
23-24 May 2000
Tashkent, Uzbekistan

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INTERNATIONAL GLOBAL CLIMATE CONFERENCE IN TASHKENT

During May 23-24, the U.S. Agency for International Development (USAID) in Tashkent will sponsor an international climate change conference entitled, "A Third Way to Participation in the United Nations Framework Convention on Climate Change". The conference will be hosted by the Institute for Strategic and Regional Studies in collaboration with the Main Committee for Hydrology and Meteorology under the Cabinet of Ministers of the Republic of Uzbekistan.

At the Fifth Conference of the Parties to the UN Framework Convention on Climate Change (UN FCCC), Uzbekistan took a leadership role among transition economies in seeking to find a way to reduce greenhouse gas emissions without damaging their prospects for continued growth. Under the leadership of the Uzbek delegation, a group, which calls itself "The Third Way" was formed and agreed to examine the best ways for transition economies to participate in the Framework Convention more fully.

The following seven countries signed the memorandum indicating their intent to join the Third way group: Armenia, Azerbaijan, Georgia, Moldova, Turkmenistan, Tajikistan and Uzbekistan. Kazakhstan and Kyrgyzstan signed as observers, and indicated that they wanted to be informed of the "Third Way" as plans develop.

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Development of the Third Way Concept

Prepared by:

Alexander Golub

January 2000

Prepared for:

Central Asia Mission
U. S. Agency for International Development

Environmental Policy and Institutional Strengthening Indefinite Quantity Contract (EPIQ)
Partners: International Resources Group, Winrock International, and Harvard Institute for International Development

Subcontractors: PADCO; Management Systems International; and Development Alternatives, Inc.

Collaborating Institutions: Center for Naval Analysis Corporation; Conservation International; KBN Engineering and Applied Sciences, Inc.; Keller-Bliesner Engineering; Resource Management International, Inc.; Tellus Institute; Urban Institute; and World Resources Institute.

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Development of the Third Way Concept

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CONTENT

In the past few years a number of the CIS countries not listed in Annex I to the UN Framework Convention on Climate Change (FCCC) and Annex B to the Kyoto Protocol (KP) have begun considering the possibility of more active participation in activities implementing the Convention and the Protocol. The basic reasons for this are the concern for the climate change problem and the understanding of the fact that the specific character of the economy of each of these countries creates some opportunities for mutually beneficial participation in international cooperation aimed at greenhouse gases (GHG) emissions reduction or their removal by sinks.

The status that has been *de facto* assigned to these countries by the aforementioned documents cannot comply with these countries' interests either by political or economic considerations.

From the political point of view, the CIS countries cannot be ranked with the developing countries. Each of them, though they are going through economic crisis, possesses considerable potential. Politically it would be more correct to characterize them as the countries with economies in transition.

From an economic point of view, the aforementioned CIS countries cannot be content with prospects for participation only in the Clean Development Mechanism (CDM) according to Article 12 of the KP. The specific character of the economies in transition lies in the fact that these countries may expect considerably better results if they have access to some other flexible mechanisms under the Kyoto Protocol. Therewith, they may achieve greater GHG emissions reductions and furnish opportunities to their partners for realizing the flexibility mechanisms and also gain economic benefits exceeding those that could be obtained by limiting their cooperation to CDM projects.

To ensure application of the indicated above potential, the counties should undertake voluntary commitments on greenhouse gas emissions limitation.

The sole mechanism provided by the KP (the undertaking of such commitments in the form of fixed budget of emissions in the context of Annex B under the KP) does not conform well to the specific character of the economic development processes in

these countries. Therefore, the Action Committee organized at the Fifth Conference of the Parties (COP-5) which involves representatives from Azerbaijan, Armenia, Georgia, Moldova, Turkmenistan and Uzbekistan posed the question as to the search for the so called *third way* for undertaking commitments on limiting emissions.

In consequence of the Action Committee activities, the joint document was developed in which the common principles of the Third Way Concept were elaborated. These principles include:

- The countries intend to perform comprehensive studies for substantiating voluntary commitments;

- Commitments on the emissions limitation should not put obstacles on the social and economic development

- Undertaking the commitments, the countries proceed from the necessity to make their own contribution for ensuring the ecological benefits for the Planet as a whole;

- The undertaking of the voluntary commitments on the emissions limitation should give to the country a possibility to participate in all flexible mechanisms under the Kyoto Protocol including emissions trading.

It is supposed that this document will form the basis of further activities of the Action Committee with the purpose of subsequently organizing the officially formalized group to participate in negotiations at the Conferences of the Parties under the FCCC and uphold their common interests.

The goal of this Concept is a more detailed discussion of the fundamental principles of the *Third Way* Group and consideration of additional benefits that could be achieved by the countries having undertaken voluntary commitments on limitation of GHG emissions. In addition, diverse schemes are being discussed for undertaking commitments on limitation of greenhouse gas emissions.

1. FUNDAMENTAL PRINCIPLES OF THE THIRD WAY CONCEPT

1.1. Commitments on emissions limitations should put no obstacles in the way of social and economic development

Commitments on emissions limitations should be realistic ones, and they shouldn't present any artificial obstacles to social and economic development of the countries undertaking these commitments. The commitments in themselves may become the factor that will initiate transition to sustainable development and may facilitate the choice of resource-saving technologies. The experience of developed countries demonstrates that it is possible to combine sustainable GDP growth with relative and even absolute reduction of emissions of both GHG and local pollutants.

At present the countries with economies in transition have a great degree of discretion in choosing the technological structure of their economies that will define the type of social and economic development as well as the character and scopes of adverse effects on the environment in the nearest 20-30 years. The fact of undertaking voluntary commitments on GHG emissions limitations should become a barrier in the way of realizing the nature-intensive path of development but not limiting sustainable development.

Such emissions limitations will be both in the interests of the world community and in the interests of the country undertaking these commitments. Every country of the CIS is trying to get rid of the resources-intensive and nature-destroying path of development inherited from the Soviet Union.

1.2. Undertaking commitments, every country should make its contribution to ensuring ecological benefits for the Planet as a whole

Operational experience in the long-term forecasting of GHG emissions in the countries with economies in transition indicates that there is a reasonable degree of freedom available in choosing a GHG emissions management strategy. We have already noted above that by selecting the path of sustainable development each county may ensure the limitation of GHG emissions growth. This fact in itself makes a

considerable contribution to providing ecological benefits for a country as a whole. Such emissions limitation doesn't require any other additional costs, and it is only an additional effect associated with improving the GDP pattern and enhancing the efficiency of the economy. Some part of such emissions reductions may be considered as the country's contribution to resolving the common problem – preventing global climate change. And another part may be regarded as a certain "bonus" that the country obtains due to the fact that it undertakes commitments voluntarily on GHG emissions limitations.

Curve 1 in Figure 1 signifies the GHG emissions forecast from choosing the resource-intensive path of development, and curve 2 – the emissions dynamics from the transition to sustainable development and implementing the actions on GHG emissions reductions that require no additional costs. Traditional economic benefits (earnings due to fuel saving, etc.) provide for the economic self-repayment of these measures. Curve 3 depicts the level of voluntary commitments of the country. The emissions reduction in the volume corresponding to the area between Curves 1 and 3 is the country's own contribution to ensuring the ecological benefit for the planet as a whole, while the area between Curves 3 and 2 is the country's bonus for undertaking voluntary commitments.

The budget of emissions that the country will receive eventually (it corresponds to the disposition of Curve 3) is the product of the negotiations process. Some profound studies are required in order to define the boundaries of Curve (disposition of Curves 1 and 2). These studies should forestall the negotiations concerning the concrete way to establish the emissions budget and definite the level of commitments. This circumstance suggested the following principle of forming the *third way* group.

1.3. It is necessary to perform comprehensive studies for substantiating voluntary commitments

After the example of Russia and Kazakhstan, it can be understood what type of work should be executed in the area of forecasting GHG emissions and analyzing the influence of diverse factors on the emissions dynamics. In terms of Figure 1, the task of such study is not only to define the likely disposition of Curves 1 and 2 but to try

to plot Curve 3 which defines additional potential for GHG emissions reduction. This potential may be achieved on the basis of implementing investment projects that become feasible due to linking the country to the mechanisms of emissions allowances trading and realizing joint implementation projects.

Such study should include the following elements:

- Construction of the base (likely) scenarios for emissions dynamics;

- Analysis of the potential for additional emissions reduction in different versions of implementing the national policy on GHG emissions management and different versions of participating in international GHG emissions trading;

- Analysis of additional economic, social and political benefits associated with GHG emissions reduction;

- Analysis of institutional aspects of GHG emissions management and construction of a project line (projects aimed at GHG emissions reduction).

All these actions together will create favorable conditions for adopting the national strategy for GHG emissions management and participating in international collaboration on the problem of surmounting global climate changes.

1.3.1. Construction of the base (likely) scenario for emissions dynamics

To construct the base scenarios for emissions, it is essential to have a long-term forecast of GDP dynamics and its pattern. Then the intersectoral balance model, which is well known in the CIS may be applied. To plot Curve 1, the "old" input-output matrix that reflects the up-to-date technological level may be taken, and one can follow the conservative approach to the problem of changing the GDP pattern. To construct Curve 2, it is necessary to design a new input-output matrix (the resource-saving path of development) and to adopt more progressive assumptions as to the structural changes in the economy.

The specific challenge for all CIS countries is the lack of reliable forecasts for GDP. In this case several GDP scenarios are considered. For fairness sake, it should be noted that the similar situation might be seen in some other countries too. For example, Argentina also considered several diverse GDP scenarios.

The economies of the CIS countries, though being similar, have some distinctions. Thus, despite common principles, it is necessary to have individual approaches to each separate country.

1.3.2 Analysis of the potential for additional emissions reduction from different versions of implementing domestic policy in GHG emissions management and different versions of participating in international GHG emissions trading

The performance of such analysis requires application of more complicated instruments. For example, in Russia a model was applied that was specially developed for such studies in countries with economies in transition. Conceptually, this is a modified intersectoral balance model with two input-output matrices. The velocity of transition from one matrix to the other (the velocity of replacement of the old technologies by the new ones) depends upon various managing parameters (upon prices for energy resources, prices for GHG emissions quotas, etc. included). In Kazakhstan the ENPEP model was used with the assistance of which various scenarios for development of the power sector were simulated. This model was a part of a model complex involving the standard model of intersectoral balance on the upper level and the ENPEP model on the lower level. In Uzbekistan the analyses by sectors of economy (power sector, transport sector, etc.) was carried out during the process of preparing the First National Communication. For each sector either a separate model or expert judgements were applied. In all countries listed above, work was also executed on identifying separate projects assigned to GHG emissions reductions.

1.3.3. Analysis of additional economic, social and political benefits associated with GHG emissions reduction

The essence of this analysis is to show what additional benefits for the country may be gained through implementing a policy of GHG emissions reduction. Such benefits are as follows:

- Additional capital inflow (by estimates of the World Bank, on average for one dollar of investments put into GHG emissions reductions there are four dollars of investments put into traditional business);

- Reductions of the local pollutant emissions like SO_2, NO_x, PM_{10} and some others. It is evident that CO_2 emissions reduction at the same time leads to reduction of the emissions of listed substances. In its turn, this prevents damage of the ecosystem, and the risks for the people's health are lessened;

- Social benefits. Development of new business facilitates the creation of new jobs. And transition to new technologies promotes the total enhancement of the educational level;

- Fiscal benefits for the budget. Development of new business encourages tax revenue increase. The sickness rate decrease allows cutting health expenditures, etc.

Some other attendant benefits can be assessed for their feasibility at the level of specific projects. Thus, the analysis of additional benefits should be carried out both at the macroeconomic level (estimation of additional benefits from realizing policy on GHG emissions reduction as a whole) and at the microeconomic level (estimation of additional benefits from every individual project).

1.3.4. Analysis of institutional aspects of GHG emissions management and construction of a project line (the projects assigned to GHG emissions reduction)

A necessary element of the country's strategy on greenhouse gases emissions management is creation of a mechanism for strategy implementation. Such a mechanism will be different for various CIS countries although it will have some common features. As of now, the Environmental Defense Fund (EDF) is completing work on a Report devoted to the analysis of the minimum system of elements required for a country's participation in GHG emissions trading (and in implementing some other flexible mechanisms as well). This document may be considered a starting point for studying the institutional aspects.

The work that has already been done in Russia and Kazakhstan depicts that along with the institutions, the creation of which has been inspired by the objectives of implementing the FCCC and the KP, it is feasible to establish an investment center. The objectives of this Center involve data collection, and assessment and tracking of projects assigned to GHG emissions reduction.

1.4. Undertaking voluntary commitments on emissions limitations should provide a country the possibility of participating in all flexibility mechanisms under the Kyoto Protocol including emissions trading

As a matter of fact, the access to all mechanisms under the Kyoto Protocol is just one of the reasons the countries working on establishing the "Third Way" Group would like to undertake voluntary commitments. The detailed interpretation of this principle has not been elaborated yet but even now several key moments should be noted:

- The commitments should be undertaken in terms of absolute value of the emissions budget and shouldn't be adjusted after their final approval in the course of the first budget period 2008-2012. For example, once the indexed budget concept is adopted, the last indexation should be made prior to 2008. This will enable the potential buyers to have a distinct idea of what commodity the seller possesses;

- The world community should recognize the commitments. Otherwise, the self-declared quota wouldn't be a commodity on the market of GHG emissions allowances. When a country or a group of countries advances an initiative for undertaking voluntary commitments, their concrete value will be the result of the negotiation process. Only after successful completion of this process and its official fixing (for example, in the form of Annex C to the Kyoto Protocol) will the emissions budget be legal. Then the country will be able to participate in the flexible mechanisms under the KP on equal terms with the Annex B countries under the KP.

- The commitments should be realistic. The emissions limitation shouldn't be too strict. Otherwise, the potential buyers will fear that the country won't fulfill its own commitments on GHG emissions limitations, and they won't trade with such a country. That is, substantiating its own contribution to the climate problem solution, a country shouldn't overestimate its potential and it should assess realistically what scale of GHG reduction it can realize on its own, and what part can be implemented on the basis of participating in emissions trading;

- The approach of setting the emissions budget should allow the country to enter quickly into the system of emissions trading on the basis of forward and option transactions. The specific character of the economies in transition is such that at the current moment decisions are being taken which will define the technology of the countries for a long period of time. Thus, it is important to ensure, as soon as possible, additional incentives for making nature-saving choices. The forward trade is an incentive. It is necessary to assign the quantified emissions limitation in the form of a definite number as soon as possible so the country can participate in trading. Recognizing the necessity of indexing the emissions budget, an integrated approach may be proposed for approving the budget comprised of the constant part and the indexed part (more detailed information is given below).

In the strict sense, only the accession to Annex 1 under the FCCC and Annex B under the KP makes it possible to participate in all flexible mechanisms including the CDM

but now not as the investments recipient but as the investor. Some CIS countries may become interested in implementing similar projects with neighboring countries. In case a new Annex C of the KP is formed, it is not quite clear whether the regulations specified by the Protocol and Convention for Annex 1- countries will be extended to this new Annex. This issue should be regulated in the course of negotiations when defining the status of Annex C.

2. WHY CAN'T THE COUNTRIES WITH ECONOMIES IN TRANSITION BE CONTENT WITH PARTICIPATION IN THE CLEAN DEVELOPMENT MECHANISM?

The political aspects of this issue have already been discussed above. Now let's consider some economic aspects. From the economic point of view the answer to this question is very simple: participation in emissions trading and in joint implementation projects is much more beneficial than participation in CDM projects. Kazakhstan, Argentina, Uzbekistan and a number of Latin American countries have already perceived this straightforward economic fact and are seeking ways of joining all flexibility mechanisms specified by the Kyoto Protocol. It was correctly reasoned that therewith they will get overwhelmingly greater access to the capital market. In addition, they will ensure a greater reduction of GHG emissions.

Below are given the main arguments in favor of orientation to the higher-order forms of economic cooperation in the area of GHG emissions reduction.

2.1. Flexible mechanisms under the Kyoto Protocol

When developing the strategy for participating in the implementation of the FCCC and Kyoto Protocol, each country analyzes potential economic and political effects of choosing one or another strategy. The basic reason that states desire to undertake quantified commitments is the quest for facilitating the process of cooperation in the area of surmounting the danger of global climate change and thereby increasing the capital inflow from abroad.

The Kyoto Protocol provided for four flexibility mechanisms. Their descriptions are given below.

As of now, for the non-Annex B countries the sole accessible way for participating in international cooperation is by implementing projects on GHG emissions reduction within the framework of the Clean Development Mechanism. The quest of a number of countries to undertake the budget emissions limitation commitments testifies that the countries are not content with this capability and would like to enhance the extent of their participation in international cooperation on this problem. In 1992 the United Nations Framework Convention on Climate Change was adopted at the Conference in Rio de Janeiro. Under this Convention all countries involved should develop and adopt National Action Plans on preventing climate change. The countries should make common efforts to reduce GHG emissions and to enhance carbon removal by sinks (sequestration). From this point onwards some specific flexibility mechanisms for the Parties' cooperation under the KP have been in development. There are four principal mechanisms:

- Emissions quota trading
- Joint Implementation projects
- Transfer of emission quotas within the "bubble" under Article 4 of the Kyoto Protocol
- Clean Development Mechanism.

The Joint Implementation projects as well as the Clean Development Mechanism (CDM) allow countries to fulfill jointly the commitments on GHG emissions limitation and reduction on the basis of realizing concrete projects for GHG reduction. This enables an increase in the emissions quota of the donor country at the expense of investments in the projects providing for emissions reduction in the host country. The donor invests the funds into the project ensuring the additional reduction in emissions or the increase in carbon sequestration. The gained additional emissions reduction will increase the emission quota of the donor country. Participation in Joint Implementation projects will make it possible for the countries with high costs for GHG emissions reductions to meet their commitments in the cheapest way.

A special phase of Joint Implementation projects and CDM are the "actions implemented jointly" projects (AIJ). Their realization may be considered a pilot stage during which no actual credits are permitted. The aim of this first phase was to gain experience in baseline construction (reference GHG emissions level that occurs in the absence of specific mitigation measures) and estimation of additional emissions reduction as compared with the baseline. When carbon crediting is permitted, AJI will provide incentives for foreign donors to invest funds into projects in the recipient countries in return for submitting the carbon credits.

Emissions trading is a more general mechanism of international cooperation. It means selling and buying of emissions quota from the emissions budget of the country-seller specified by Annex B under the Kyoto Protocol. The emissions trading may be performed directly between Participating Countries or indirectly through intermediaries. At the initial stage, two or more countries may sign a special agreement on redistribution of emissions quota between them and to fulfill jointly the assigned commitments. The agreements between countries will promote developing emissions trading in various forms. Eventually, the countries may simply reach an agreement on joint fulfillment of obligations and to redistribute quotas by forming the "bubble". Article 4 under the Kyoto Protocol provides for this. The European Union was the first group to form such a "bubble". The EU Countries – Participants of the "bubble" have already agreed upon redistribution of the quotas. Thus, we can state just now that the first large-scale transaction associated with considerable volumes of the quotas redistribution has been implemented. As a prototype of another "bubble", the so-called "umbrella" group is under consideration involving the USA, Canada, Japan, Australia, New Zealand, Iceland, Russia and the Ukraine, and Kazakhstan as an observer.

The economic reason is the deciding factor for counties participating in emissions trading or in realizing Joint Implementation projects or in CDM. The country-seller has considerably fewer costs for GHG emissions reduction than the country-buyer has.

The resources gained from the emissions trading should be allocated for the projects on GHG emissions reduction or carbon sequestration.

The principal prerequisite of the Joint Implementation projects and GHG emissions trading shall be the difference in the marginal costs for the emissions reduction between the countries, sectors of economy and individual enterprises.

2.2. Why can't many countries be content with the CDM?

There are several reasons why the CDM doesn't meet the requirements of the developing countries. Below we cite some of them.

- Complicated bureaucratic process of approving CDM projects may take from several months to several years;

- High transaction costs. The costs may reach 20% of the project value. This money will turn out to be lost for the country where the CDM project is being implemented;

- It is complicated to construct the baseline. Because of this many projects are excluded from consideration particularly when it comes to diverse ways of developing the economy of the country, region or enterprise. Selection of the least carbon-intensive way of development doesn't mean that these actions would qualify as CDM projects. When the country has an emissions budget, it possesses more chances to gain benefits from such projects.

- Principle of additionality and principle of additional costs. Realization of these principles further implies that the carbon credit formed as a consequence of project implementation will be sold at a price corresponding to the additional costs but not at the market price of the GHG emissions quota.

For the CIS countries this issue is the most basic one since a great number of projects on GHG emissions reduction have low or even negative additional costs. When, for

example, additional costs account to $2 per Carbon ton and the market price for the emissions is $10 per Carbon ton, then by participating in a CDM project rather than budget trading the buyer losses $8 per each ton sold. This is illustrated in more detail by the example below.

Example:

Let's consider the project of enhancing the operation capacity of a local thermal power station. The non-recurrent capital costs amount to $1,000,000 and the discounted value of the current costs saving, on account of reducing the fuel consumption achieved by the project implementation, amounts to $900,000. In this case the additional costs of the project are $600,000. Just this part of expenditures by the project may be financed under the CDM.

The project could be realized only when the unit costs per ton of carbon are less than or equal to the price for the GHG emissions quota. It may be assumed that in the given case the aggregate emissions reduction makes up 150,000 tons of CO_2 equivalent. Thus, the unit costs are equal to $4.5 per CO_2 ton. The price forecasting for the GHG emissions quota is $10. The project will beneficial for the investor. But will it be beneficial for the host country?

The investments will be equal to $600,000. This accounts only for 60% of the funds required to make non-recurrent capital costs. If the resources for co-financing are found, the project will be implemented (the funds invested into the co-financing will be recouped at the expense of saving the current costs).

When the country where the hypothetical project is being implemented could have an emissions budget (for example, if it were an Annex B-country), it could receive $1,500,000 instead of $600,000 since the emissions trading allowances could be sold at the price of $10 per one ton.

The analysis carried out by us in various countries with economies in transition including Russia, Kazakhstan and Uzbekistan as well as the studies of other experts who investigated the potential for implementing GHG emissions reductions projects

in the Czech Republic, Slovakia, Romania, Columbia and some other countries make a compelling case that the most advanced and attractive projects are characterized by negative additional costs, and for this reason they can't qualify as CDM projects.

This evident contradiction is one more significant reason why the countries concerned have already started work to seek a new way to participate in the flexibility mechanisms under the Kyoto Protocol on the grounds of undertaking voluntary GHG emissions limitations commitments and establishing a common budget of emissions.

3. WHAT ARE THE WAYS FOR ESTABLISHING AN EMISSIONS BUDGET FOR THE "NEW" COUNTRIES? : THE THIRD WAY CONCEPT

3.1. Why is there a need for the *Third Way* ?

The desire of Kazakhstan and Argentina to undertake voluntary commitments on GHG emissions limitation was declared at COP-4 and this promoted discussion concerning ways of establishing such obligations. In the context of the KP there are two approaches:

- Joining Annex 1 under the FCCC and then Annex B under the KP (inclusion into Annex B through joining Annex 1 – that is the way chosen by Kazakhstan);

- Joining Annex B under the KP without inclusion into Annex 1 under the FCCC.

The first path seems to be faster. This perfectly complies with the interests of the countries with economies in transition: the sooner they get access to investments the greater is the potential for GHG emissions reduction. The FCCC has already entered into force, and this means it is possible to amend the treaty. The country concerned may hope for a quick solution of the issue on its status as an Annex 1-country. This status provides the possibility of negotiating at the level of commitments in

compliance with Annex B and to coordinate the assigned amounts as to the emissions reduction before the KP becomes valid.

For the second path it is required that the KP is already in effect. The country concerned may also begin negotiating at the level of commitments but its position will be weaker since the partners to negotiations will not be completely sure of the intentions of this country.

Despite the indicated differences, both paths have similar features, namely: the budget of emissions is rigorously related to a certain previously achieved level of GHG emissions (for the most of the countries this is the level of 1990). The scatter of commitments ranges from –8 to +10% of the base year (more often it is the year of 1990).

These principles for setting commitments are not convenient for all countries since such obligations are primarily oriented towards states that have already reached a definite level of development. These countries tend to possess more considerable reserves for GHG emissions reduction per unit of GDP as compared with other countries where the economic growth is associated with the growth of population, essential structural shifts in economics are anticipated, and social and economic processes are characterized by high dynamics.

Therefore, the Concept of the Third Way or "Annex C" to the Kyoto Protocol has appeared. In any event this signifies either insertion of fundamental addenda to the Kyoto Protocol or adoption of a new Protocol to the FCCC specifying the commitments and status of the Parties previously not listed in Annex B under the KP.

3.2. How will the commitments of the "new" countries be established?

Inasmuch as the countries desiring to assume voluntary commitments on GHG emissions limitations may contribute significantly to establishing the principles of a new Annex to the KP or new Protocol to the FCCC, it would be worthwhile to consider more thoroughly various approaches for setting the budget of emissions. The material proposed below should assist the Participants of the *Third Way* Group to

elaborate their own position as to the mechanism on establishing the budgets of emissions. It is worth noting that this mechanism doesn't have to be a unified one for all countries that undertake commitments. There may be a suite of mechanisms used. What really matters is that each such mechanism should comply with the four fundamental principles formulated in the first Section of this Concept.

The challenge lies with the problem of finding certain fair grounds and a formalized procedure for setting the growing emissions budget. Three technical approaches for setting the growing emissions budget are discussed below:

- Direct forecasting of GHG emissions dynamics considering the mitigation actions that a country would take in any case starting from economic incentives;

- Setting of the GHG emissions budget on the basis of the emissions factor per unit of GDP;

- Setting of the GHG emissions budget on the basis of the emissions factor per capita.

Each of these approaches has favorable and unfavorable aspects. In any event, the values obtained on the basis of these approaches will be only the starting point for further negotiations.

To gain greater insight into what approach of setting the voluntary budget limitations would be better for each of the countries involved in the *Third Way* Group, it is necessary to make respective estimates and to assess what emissions budget the country may get and what reserve for emissions trading it will then have.

The direct forecast approach is the best one from a theoretical point of view. It makes it possible to define immediately the concrete value of the emissions budget and thereby equalizes potential of "new countries" to attract investment resources with the potential of Annex B-countries. However its implementing may involve some difficulties and it may be even unfeasible because of some technical troubles. That is

why the idea of an indexed budget of emissions came into being. Indexation of the emissions budget will solve the problem of forecasting (the precise long-term forecast is no longer significant) but it poses new-challenges. The main problem lies in the fact that both the incentives (so necessary for countries with developing economies or with economies in transition) to GHG emissions reduction and the incentives (which are of particular importance for the countries with economies in transition) to effecting early actions prior to the beginning of the first budget period (2008-2010) are not implemented in full measure. Quite the reverse, the incentives are provided for faster growth of GHG emissions to have a better base (the less intensive emissions budget) up to the moment of the final indexation. For this and some other reasons, an indexed approach is being criticized by a number of NGOs, and it finds no wide support among the countries participating in the Convention.

3.3. An integrated approach for establishing an emissions budget

Thus, the direct indexation of the emissions budget won't create sufficient provisions for the most complete participation of the countries in the flexible mechanisms under the KP. So let us consider a new so-called integrated approach making provision for setting the constant and variable parts of the emissions budget.

With regard to the specific character of the economies in transition, some aspects might be noted that should be taken into account when determining the emissions budget for the "new countries".

To cite one example of some features of economies in transition:

- Uncertainty of forecasting GDP dynamics and its pattern;
- Uncertainty of the pace and rates of technological renovation;
- Underdevelopment of the capital market;
- Poor development of the market incentives;
- High discount rate (and, as a consequence, predominance of short-term motivation);
- Low rate of internalization of externalities.

From the viewpoint of realizing a long-run program on GHG emissions reduction, it is necessary to fix as soon as possible an emissions budget and to commence as quickly as possible implementing the investment projects on emissions reduction. To do this requires sale on a forward or option base of some part of the emissions quota and to create a financial mechanism for reinvestment of the funds received.

It is our opinion that the *Third Way* Group could put forward a suggestion: to divide the emissions budget into two parts. The first part of it the country shall receive at once. Its definition is based on the "low" GDP forecast, and the second part the country will receive within several years when the actual GDP dynamics can be estimated.

The first part is constant but the second one is variable. Let's refer to Figure 2 in order to explain the idea of the integrated approach. Curve 1 corresponds to GHG emissions forecast at the higher rate of the GDP growth and when the country chooses the resource-intensive path of development. Curve 2 conforms to the GHG emissions forecast at the high rate of the GDP growth but in case of choosing the resources-saving way of development. If it is known that the development will go by the "high" scenario, the emissions budget could be fixed at the Curve 2 level (Fig. 2) that in the given case is the analog of Curve 3 in Figure 1. The aggregate emissions budget would be equal to the total of the areas S4 + S3 + S2.

Curve 3 correlates with a GHG emissions forecast at the "low" scenario for GDP growth and at the resource-intensive way of development, while Curve 4 – at the resource-saving path of development.

Provided it is known that the development will go by the "low" scenario, the emissions budget should be set at the level of Curve 4 (it would be equal to the area S4). Thus, the emissions budget is confined between Curves 2 and 4 (Fig. 2). The constant part S4 may be separated from the budget and fixed at the very beginning, not revising it thereafter. In addition, the interval may be assigned where the variable part S3 + S2 will be confined, and the rules should be specified whereby the budget will be indexed within the variable part. The country will receive it several years

prior to the beginning of the first budget period. Its value shouldn't exceed S3 + S2. The share S3 + S2 that the country will get shall be related to the economic index at least depending upon the country's efforts in GHG emissions reduction prior to the beginning of the first budget period. For example, there may be proposed the average annual rates of the GDP growth. Let us explain it by the following example.

Suppose that the "low" GDP scenario implied GDP average annual growth 3% and the "high" scenario – 6%. Should the rates of the GDP growth are lower, for example 4% per year, the additional emissions budget will represent (S3 + S2)/3.

4. CONCLUSIONS

Application of the Clean Development Mechanism in the countries with economies in transition not included into Annex B under the FCCC is not sufficient for complete realization of their potential in implementing economically beneficial projects on GHG emissions reduction. So their striving to find a means of participating in more efficient flexible mechanisms under the Kyoto Protocol (such as the emission trading and Joint Implementation Projects) has been based on profound economic foundations and has been inspired by the quest for more active participation in mutually beneficial international cooperation in the area of preventing global climate change.

The desire for more active participation in implementing the requirements of the FCCC and KP expressed in undertaking voluntary commitments on GHG emissions reduction will lend a greater political significance to these countries ranking them on one level with the developed countries. At the same time, the selection of the *Third Way* implies that their commitments will differ from the obligations of the developed Annex 1 - countries under the FCCC. They may provide for some growth of GHG emissions required for ensuring the social and economic development of the countries undertaking these emissions limitation commitments.

The undertaking of the commitments on GHG emissions limitation will facilitate transition of the countries for sustainable development since the full-scale

participation in the flexible mechanisms under the KP will create conditions for capital inflow to these countries. And this will initiate their transition to the nature-saving technologies and the required structural changes in the economies. The profound economic analysis should proceed the formulating of commitments in quantitative terms. In this situation the commitments not only create no obstacles on the way of economic development but they will be able to attract the funds required for this development.

Realization of the Third Way Concept will require considerable efforts at the international negotiations. Therewith, the joining of the countries that share the fundamental principles of the Third Way Concept will strengthen their position. The Group should be open for adopting other countries sharing these principles who are ready to choose the *Third Way* or to support the countries choosing this path.

ANNEX

IMPLEMENTATION OF THE PRINCIPLES

OF THE THIRD WAY CONCEPT

FOR UZBEKISTAN

A.1. Why isn't Uzbekistan content with the CDM?

The situation with low additional costs is typical for Uzbekistan. In the study on the national strategy the data are cited as to additional costs by the Uzbekistan's projects.

Table. The proposed actions on the energy saving and incremental costs for CO_2 emissions reduction in 2010.

Action	CO_2 emissions reduction Million tons/year		USD/CO_2t
	Minimum	Maximum	
Use of up-to-date gas turbines	3.6	4.8	2.7
Use of units with recurrent cycle	1.9	3.1	2.7
Modernization of small boiler houses with replacement of equipment	2.4	3.9	7.6 – 21.6
Small hydropower plants	0.9	3.0	1.3 – 4.3
Use of closed cycle system for heat supply	0.9	2.1	
Better insulation of the existing heat supply pipelines	0.9	3.0	
Introducing the measurement of gases	1.8	4.5	0.6
Energy-efficient lighting	1.0	1.7	(-0.8)
Energy-efficient air-conditioning		1.5	
Equipping operating machines with gas engines	3.0	5.9	1.3
Use of natural gas		1.0	
Total	**16.4**	**34.5**	

(Marginal costs were calculated at the pre-qualification stage of preparing the individual project).

On the basis of this table it is possible to estimate the losses from realization of the given projects within the CDM. By assuming that the price of forward transactions in 2002-2003 is about $7 per Carbon ton and GHG emissions reduction corresponds to the average level by the projects, the losses will amount to about $100M. This estimation is of an illustrative character only. For precise assessment of the pluses and minuses in choosing one or other strategy a more detailed analysis is required.

A.2. Integrated budget for Uzbekistan

The results of the GHG emissions forecast for Uzbekistan has been presented in the First National Communication. Based on these data, the analogs of Curves 1 – 4 presented in Figure 2 may be constructed.

Relying on the calculations available, the corridor involving the emissions budget for Uzbekistan may be estimated from 110 to 140% of the GHG emissions level in 1990. Some more detailed studies will enable to narrow this corridor. When assuming that the adoption of the integrated budget is based on the values cited above, the constant part of the budget will make up 110% of the emissions level of 1990. As to the variable part, it will be included in the interval between 0% and (α*30)% of the level of 1990 ($0<\alpha<1$).

A.3. Studies that should be carried out in Uzbekistan

Some general recommendations are given in Section 1.3. concerning the researches that should be carried out for substantiating voluntary commitments of each country joining the *Third Way* Group. These recommendations should be adapted to the other countries based on the specific character of the country's economy and the outcomes of the studies have already been performed in this area.

A great deal of work was executed in Uzbekistan in the process of preparing the First National Communication and WB-NSS. The outcome of these studies may be used

for substantiating the voluntary commitments of Uzbekistan. On their basis the preliminary conclusion has been made that Uzbekistan cannot be content with participating in the CDM only. It should strive for getting access to some other more effective flexible mechanisms under the Kyoto Protocol (this conclusion was supported by the participants of the Seminar being hold in September 1999 in Tashkent). At the same time the studies conducted are not quite sufficient to make recommendations as to the concrete level of commitments.

As it was cited above, the more detailed study should involve the following elements:

- Construction of the base (likely) scenario for emissions dynamics;

- Analysis of the potential for additional emissions reduction from diverse versions of implementing the domestic policy in GHG emissions management and from different variants of participating in international GHG emissions trading;

- Analysis of additional economic, social and political benefits associated with GHG emissions reduction;

- Analysis of the institutional aspects in GHG emissions management and construction of a project line (projects assigned to GHG emissions reduction).

Construction of the base (likely) scenario for emissions dynamics

Up until now, all forecasts were based on a combination of the sectoral forecasts or upon applying a model of the bottom – up type. This is inadequate for discussing the level of Uzbekistan's quantitative commitments. The more plausible way for refining the analysis shall be applying the intersectoral balance model with two input – output matrices.

Analysis of the potential for additional emissions reduction from diverse versions of implementing the domestic policy in GHG emissions management and from different variants of participating in international GHG emissions trading

It is recommended at this point to apply the outcomes of the analysis made for various sectors of economy. In addition, the use of the intersectoral balance model offers possibilities for estimating the influence of structural changes on the value of the potential for GHG emissions reductions.

Analysis of additional economic, social and political benefits associated with the GHG emissions reduction

It is proposed to make these estimates at three levels:

- Macroeconomic level;
- Sectoral level;
- The project level

At the macroeconomic level it is suggested to make an expert assessment as to the additional capital inflow, tax revenues and creation of new jobs. It is necessary to consider various scenarios of Uzbekistan's participation in GHG emissions trading and in reinvesting the revenues gained. In addition, it is necessary to estimate the potential for reducing emissions of such local pollutants as SO_2, NO_x, PM_{10} and others, as well as to assess the damage prevented.

Some similar studies should be also performed at the level of the sectors of the economy. As to the analysis of separate projects, their estimates should be more precise. And in the future these estimates may assist in arranging the selection between projects for financing one of them at the expense of funds gained from the forward sale of the GHG emissions quotas.

Analysis of the institutional aspects in GHG emissions management and construction of the project line (projects assigned to GHG emissions reduction)

Considering Uzbekistan's developed procedures of interaction between the governmental authorities, it is necessary to elaborate an Action Plan on strengthening the governmental management of GHG emissions. Creation of a minimum set of elements required for successful participation of the country in the flexible mechanisms under the KP should be the result of implementing this Action Plan.

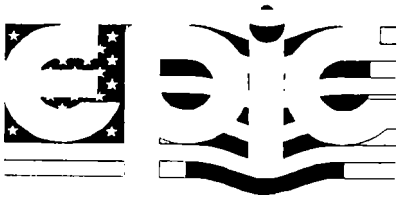
To construct the project line, it is necessary to consider the financial institutions and, first of all, the Republican Ecological Fund.

A.4. Potential risks and their minimization

There are available two principal approaches of the risk minimization:

- The undertaking of only realistic commitments based upon the outcomes of reliable analysis;
- Creation of an effective mechanism for GHG emissions management including the mechanism of reinvesting the funds, attracted in consequence of Uzbekistan's participation in the flexible mechanisms under the KP, into the projects assigned to GHG emissions reduction.

To ensure this, it is appropriate to develop the National Strategy for GHG emissions management and participation in the flexible mechanisms under the KP, and to submit it for approval to the President of the Republic.



AN EXAMPLE OF CALCULATING THE GREENHOUSE GAS EMISSIONS BUDGET FOR UZBEKISTAN

Prepared by:
Alexander Golub

May 2000

Prepared for:
Central Asia Mission
U. S. Agency for International Development

Environmental Policy and Institutional Strengthening Indefinite Quantity Contract (EPIQ)
Partners: International Resources Group, Winrock International, and Harvard Institute for International Development

Subcontractors: PADCO; Management Systems International; and Development Alternatives, Inc.

Collaborating Institutions: Center for Naval Analysis Corporation; Conservation International; KBN Engineering and Applied Sciences, Inc.; Keller-Bliesner Engineering; Resource Management International, Inc.; Tellus Institute; Urban Institute; and World Resources Institute.

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The objective of this document is to propose preliminary estimates of the emissions budget for Uzbekistan as a country that has expressed its wish to enhance the degree of its participation in the UN Framework Convention on Climate Change in the form of choosing the so-called *Third Way Concept*.

No generally recognized and established procedures for determining such a budget exist. We suppose that they will be elaborated in the course of negotiations among the Parties to the Convention with active participation of the countries that have expressed their desire to follow the *Third Way*.

In any event, the approaches for establishing the emissions budget should comply with the fundamental principles that have been previously discussed by the Action Committee. These principles are as follows:

- The emissions budget should be based on comprehensive studies to substantiate the undertaking of voluntary commitments at a certain level;

- Emissions reduction commitments should not put any obstacles in the way of social and economic development;

- When undertaking the commitments, the countries proceed from the necessity of making their own contribution to ensure ecological benefits for the planet as a whole;

- The undertaking of voluntary commitments of emissions limitations should give to the country the opportunity to participate in all flexible mechanisms under the Kyoto Protocol (KP) including emissions trading.

It is supposed that this example of determining the emissions budget may serve as an illustration of how to implement the indicated principles in concrete figures as well as the basis for further activity of the Action Committee, with the aim of developing a formalized attitude of the Action Committee to the problem concerning some approaches to determine voluntary commitments (emissions budgets).

In the conceptual plan, the estimates provided below are based on the Draft *Third Way Concept* of 01.04.2000 prepared by members of Harvard University. As for the data on GHG emissions in Uzbekistan and the emissions forecast and for information concerning major indicators of social and economic development, the principal sources are the First National Communication of the Republic of Uzbekistan, World Bank NSS and operating materials prepared within the framework of the EPIC Program. It is highly desirable to expand this information base and, first of all, improve the general economic information. The invoking of additional information sources will make it possible to enhance the quality of forecasts and decrease the risks associated with the specified voluntary commitments (emissions budget).

Concept of the Group *Third Way* and the Integrated Approach for Establishing the Emissions Budget

In the above-mentioned Draft Concept of 01.04.2000, the fundamental issues of the *Third Way Concept* were discussed in detail. The analysis we carried out suggested that for today the integrated approach for determining the emissions budget to a greater degree meets the specific character of the New Independent States' (NIS) economies in transition.

Direct indexation of the emissions budget won't create adequate conditions for more complete participation of the countries in the flexible mechanisms under the KP. Thus it is proposed to consider a new, so-called integrated, approach that provides for establishing the constant and variable components of the emissions budget.

With regard to the specific features of economies in transition, some aspects might be noted that should be taken into consideration when setting the emissions budget for the "new countries".

Following are some features of the period characterizing an economy in transition:

- Uncertainty of forecasting GDP dynamics and its pattern.
- Uncertainty of the pace and extent of technological renovation.
- Underdevelopment of the capital market.
- Poor development of market incentives.
- High discount rate (and, as a consequence, predominance of short-term motivation).
- Low rate of the internalization of externalities.

From the standpoint of realizing a long-term program on GHG emissions reduction, it is essential to establish the emissions budget as quickly as possible and to commence implementing the investment projects on emissions reduction as soon as possible. To do this requires sale on a forward or option basis some part of the emissions quota and to create a financial mechanism for reinvesting the funds gained.

It is our opinion that the *Third Way* Group could make the following proposal: to divide the emissions budget into two parts. The first part of it the country should receive immediately. Its determination should be based on the "low" GDP forecast, and the country will receive the second part within several years when the GDP real dynamics will be estimated.

The first part is constant and the second is variable. To gain greater insight into the idea of the integrated approach, one should refer to Figure 2. Curve 1 corresponds to the GHG emissions forecast at the higher rate of the GDP growth and when the country chooses the resource-intensive path of development. Curve 2 fits the GHG emissions forecast at the high rate of the GDP growth but when the country chooses the resources-saving path of development. If it is known that the development will follow the "high" scenario, the emissions budget could be set at Curve 2 level (Fig. 1). The aggregate emissions budget would be equal to the total of the areas S4 + S3 + S2.

Curve 3 corresponds to the GHG emissions forecast at the "low" scenario of GDP growth and at the resource-intensive way of development, and Curve 4 – at the resources-saving path of development.

Provided it is known that the development will follow the "low" scenario, the emissions budget should be set at the level of Curve 4 (it would be equal to the area S4). Thus, the emissions budget is confined between Curves 2 and 4 (Fig. 1). The constant part S4 may be separated from the budget and fixed at the very beginning without its revision thereafter. In addition, the interval may be set where the variable part S3 + S2 will be confined, and the rules should be specified whereby the emissions budget will be indexed within the variable part. The country will receive it several years prior to the commencement of the first budget period. Its value can't exceed S3 + S2. The part S3 + S2 that the country will receive shall be related to the economic index that in the lowest degree depends upon the country's efforts in GHG emissions reduction prior to the beginning of the first budget period. For example, there may be proposed average annual rates of the GDP growth.

By way of illustration let us consider that the "low" scenario of GDP implies a GDP average annual growth of 3% and the "high" scenario – 6%. In case the GDP growth rates are lower, for example, 4 % per year, the additional emissions budget will represent (S3 + S2)/3.

Estimating the Value of the Integrated Emissions Budget for Uzbekistan (Preliminary Estimates)

First we will describe the formal algorithm on constructing the integrated budget, and then we will apply it for constructing the emissions budget of Uzbekistan.

Algorithm for Constructing the Integrated Budget

Step 1

Determining the corridor that involves the emissions budget.

The maximum and minimum forecasts for GHG emissions should be taken to determine this corridor. As we specified it earlier in the process of analysis of GHG emissions dynamics in the countries with economies in transition, there are several major factors that determine the emissions dynamics. They are as follows:

- GDP dynamics;
- GDP pattern;
- Rates of technical renewal;
- Energy balance structure and its dynamics.

In case there is a top-down macroeconomic model adjusted to the determining of the GHG emissions, the most precise estimates of the corridor may be obtained on its basis. If such model is not available, a certain simplified procedure may be proposed.

Step 1.1
Determining the interval that may involve the specified parameters.

The interval shall be determined for the GDP wherein the growth rates may be, for example, from 2.5 to 5%. Specialists in the area of macroeconomics may readily identify such an interval.

It is important to know the share of the energy sector for the GDP structure. The respective specialists may make the required estimates.

The rates of technical renovation may be given as the share of new technologies or in the form of GHG specific emissions indicator per GDP unit.

The shares of diverse types of fuel give the energy balance structure.

Step 1.2
Determining the best and worst combination of parameters.

To get the upper boundary of the corridor, it is essential to consider the highest rates of the GDP growth, to use the most energy-intensive structure, low rates of technological advance and the least favorable energy balance structure. To get the lower boundary of the corridor, everything should be done vice versa.

In actual practice such combinations are almost impossible. One of the reasons is the fact that at the higher rates of GDP growth there are more resources for developing new technologies, and positive changes in the GDP structure are more likely. As a consequence, the upper boundary of the corridor will be overestimated and the lower one – underestimated. It will be necessary to narrow the corridor.

Step 2
Narrowing the corridor.

To narrow the corridor, it is necessary to develop the likely scenarios for combination of major economic parameters that influence on the GHG emissions dynamics.

It is best to do this on the basis of the model. If such model is not available, the scenarios may be chosen by the Delphi method.

Step 3

A probability of the "outlet" of real emissions outside the limits of the corridor should be determined at this stage.

Step 4

Determining the country's own contribution to GHG emissions reduction.

On the basis of the model it is possible to distinguish no-regret & low-cost measures. The result of their use may be considered the country's own contribution to GHG emissions reduction. The countries with economies in transition should address this problem with great caution and take into account all existing barriers while implementing similar projects. As a result, estimation of the country's contribution to GHG emissions reduction may appear to be lower than the aggregate outcome of applying the no-regret & low-costs actions.

In case the estimate of the emissions reduction potential is made on the basis of a bottom-up approach, the potential turns out to be obviously overestimated. Ultimately, the realistic value of the country's contribution to GHG emissions reduction should be determined, and the upper boundary of the "narrow corridor" should be adjusted on this basis.

One more approach may be proposed for determining the value of the country's own contribution to GHG emissions reduction. For example, if it is known that at the costs K the emissions reduction Q may be achieved, and it is also known that the price of one GHG ton on the carbon market is P, then the value of the country's own contribution in the GHG emissions reduction q may be determined by the formula $q = Q - K/P$.

To put it differently, the sources attracted from the sale of the unused quota $(Q - q)$ should be sufficient for financing the actions on GHG emissions reduction in the volume Q covering both of the country's own contribution q and the reductions corresponding to the sold part of the quota $Q - q$.

Step 5

Determining the constant part of the emissions budget.

The lower boundary of the "narrow" corridor is taken as the constant part of the emissions budget.

Step 6

Determining the boundaries of the variable (indexed) part of the emissions budget.

The variable (indexed) part of the budget is within the limits from the zero to the difference between the adjusted upper boundary of the corridor and the constant part of the budget.

Step 7

Indexation of the variable part of the budget.

Indexation of the variable part of the budget may be carried out in 2005, three years prior to the commitments on the emissions reduction coming into force. The indexation should be made in conformity with the procedures stipulated. The indexation procedure should be transparent. Once the indexation has been done, the emissions budget should not be adjusted any more.

It is feasible to choose the factor that influences the GHG emissions most of all as the indicator on the basis of which the indexation is being carried out. For the countries with economies in transition the GDP should be selected as such an indicator.

The Integrated Budget for Uzbekistan

The estimates presented below have only an illustrative character.

Step 1

Determining the corridor that involves the emissions budget.

The wide corridor for the first budget period 2008-2012 may be determined within the limits from 550 to 700 million tCO_2. Therewith, the data available will enable to take into account only the possible fluctuations of the GDP.

Step 2

Narrowing the corridor.

Considering the most probable scattering in the GDP values, the corridor may be narrowed up to 575-675 million t.

Step 3

There is insufficient information available for the sensitivity analysis.

Step 4

Determining the country's own contribution to GHG emissions reduction.

According to the conservative estimates, the country's own contribution may be determined as 5 million tCO_2 annually or 25 million t over the first budget period. Thus, the adjusted upper boundary of the corridor may amount to 650 million t.

Step 5
Determining the constant part of the emissions budget.

The volume of 575 million t is taken as the constant part of the emissions budget.

Step 6
Determining the boundaries of the variable (indexed) part of the budget.

The variable part of the budget constitutes 75 million t.

Step 7
Indexation.

The GDP is chosen as the parameter by which the indexation is being carried out since (as in all the NIS countries) GHG emissions are most sensitive to this indicator.

Average rates of GDP growth over the period 2000-2005 shall be determined. Should they be less than 3%, the indexation coefficient is taken to be equal to zero. If they are 5% and more, the coefficient is equal to 1. If they make up X% between 3 and 5%, the indexation coefficient shall be determined by the formula $K = (X - 3)/2$.

The variable part of the budget of 75 million t shall be multiplied by the indexation coefficient. The result gained should be added to the constant part of the budget.

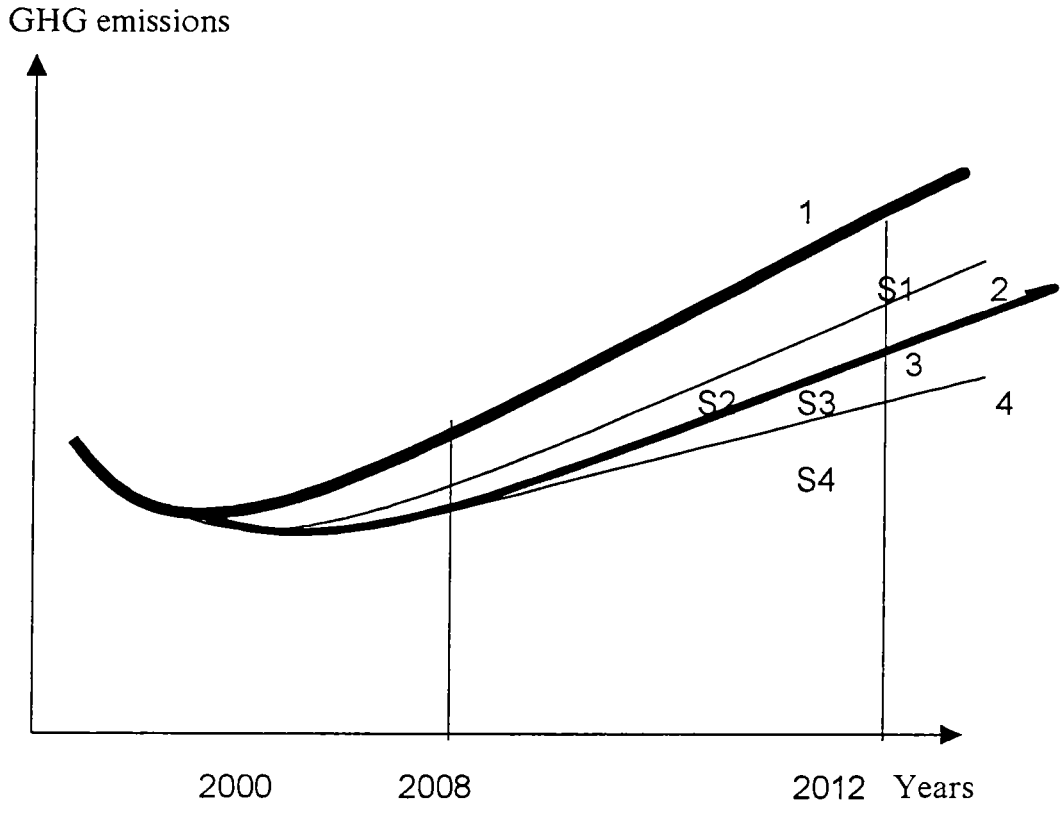

Figure 1

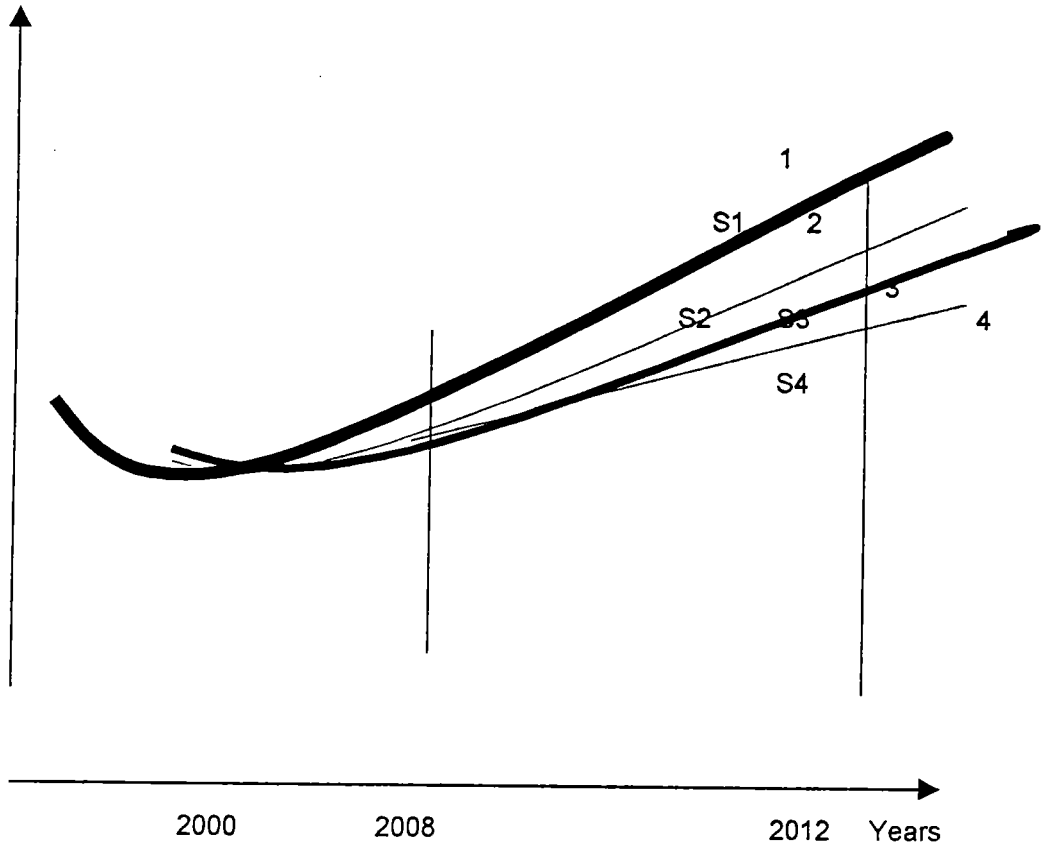

Figure 2