

REPORT

Roundtable for the Stakeholders of the Romanian - Swiss AIJ¹ Project (STEP)²

Joint Training Session of LEAD-CIS, -Europe and -India
Buzau, Romania, 27 September 1999

SUMMARY

As part of the interregional training course for Associates from LEAD-CIS, LEAD-Europe and LEAD-India, a case study on the Romanian-Swiss AIJ STEP (Swiss Thermal Energy Project) was organized on 27 September 1999 in Buzau, Romania, in the form of a Roundtable involving seven stakeholder groups. The preparation and organization of the Roundtable was made possible by the Swiss AIJ Pilot Program, which provided financial support. Expert assistance and input was received from Alexander Lüchinger from Factor Ltd. Stanislaw Kolar, from the Centre for Clean Air Policy in Prague, chaired the Roundtable.

This Roundtable was the first occasion for part of the stakeholders to meet and discuss the project. It provided them with an opportunity to learn and express their respective views and positions about the project, and to recognize the merits of a consultation process. It also allowed NGOs to voice their concerns. From the point of view of the different actors, the exercise was useful in that it enabled them to clarify their respective roles. As concerns the LEAD Associates, the Roundtable helped them to understand the practical implications of AIJ. This was especially useful to LEAD Associates from the CIS countries and India. The main conclusions from the Roundtable were that enhanced capacity building and a continued dialogue between stakeholders are required to further clarify responsibilities and to maximise support for an efficient implementation of the STEP.

As a result of the Roundtable and subsequent consultations, the following recommendations can be made:

¹ *Activities Implemented Jointly*

² *Swiss Thermal Energy Project (STEP).*

Identification of suitable partners to monitor the local impact of the AIJ project

The Romanian Energy Policy Association (APER), the Romanian Energy Conservation Agency (ARCE), and the Romanian Energy Cities Network have developed training activities for energy efficiency. They would not only be able to provide an assessment of the STEP impact but also suggest measures to remedy problem in the project operation. They would be able to provide monitoring services for fuel use and energy efficiency, other environmental aspects, social aspects and economic aspects of the STEP.

Comparison of the Thermal Energy Conservation Project's outcome in Buzau with the economic parameters assumed in its feasibility study

The feasibility study elaborated in 1996 contained a number of optimistic assumptions about economic conditions in Buzau, in particular as concerns the disposable income of the inhabitants. While it assumed a steady rise in net incomes, they have continued to decline to this day. The feasibility study also assumed that heating bills would not exceed 8% of disposable incomes and that subsidies from the Romanian government would be eliminated by 2001. This is contradictory, as continued subsidies to the Regia will be necessary to limit heating bills to 8% of disposable incomes. This will be attenuated by income generated from electricity sold through the STEP project, but the conditions for these sales cannot be ascertained. Nonetheless, the STEP project should not be affected by the failure to attain the planned rate of return in the EBRD project.

Procurement of local equipment

Direct procurement of equipment by the Regia should be expanded. The Regia has strong incentives to improve its procurement competence. LEAD Associates did not have the opportunity to discuss past procurement with the Regia in detail as most of the time was used to clarify the Romanian and Swiss benefits from the STEP. Therefore, more specific recommendations could not be identified.

Procedures of Romanian institutions for the approval and implementation of AIJ projects, and recommendations for improvements

No information was provided during the Roundtable about procedures envisaged by the Romanian government for approval and implementation of JI projects. As long as a regulatory framework for the privatisation of local utilities is not established, it appears unlikely that such procedures will be elaborated. However, the financing of the local costs of JI projects and baseline methodologies could be standardised.

The creation of a joint venture company between the foreign JI investor and the concerned Regia is an approach that would facilitate commercial and contractual matters. As for approval procedures, the Ministry of Public Works should be in a position to elaborate a standard feasibility format to design cogeneration units for district heating, which would define heat loads, suitable cogeneration technologies, and costing estimates for construction and equipment. The second aspect of the approval of JI where some progress could be made in Romania is the standardisation of baseline definitions. This requires that a responsible institution be designated, which could also certify potential third party services for JI, act as a clearinghouse for JI information, and propose and analyse baselines for CO₂ emission accounting.

Financing energy conservation investments in private buildings

Some banking institutions in Romania have received assistance from the EBRD to provide loans for energy conservation investments such as insulation in private buildings. Before creating new financing programmes, it is necessary to investigate why these banking institutions have not been able to provide loans for insulation.

How to improve the flow of information among stakeholders and the transparency of AIJ implementation, and suggestions for new forms of consultation with local organisations.

As a first step towards improvement of the local understanding of what the STEP can achieve, the Regia, the municipality and the Tenants' Associations should be informed about the content of the Memorandum of Understanding between the Romanian and Swiss governments. Secondly, the stakeholders should agree on an objective for the timing of implementation, as well as on decisions regarding procurement and installation of equipment. Common definition of objectives would improve the flow of information and the level of support. Thirdly, in order to further clarify the respective interests of, and benefits to, the stakeholders, multilateral exchanges and consultations should be held at regular intervals. To institutionalise such a cycle of consultations, stakeholders could create a STEP consultation group to which each of them would delegate a permanent representative.

Capacity building opportunities to improve knowledge of climate change and the Kyoto mechanisms in the Romanian government

The Roundtable discussion revealed that Romania would benefit from enhanced capacity and knowledge with respect to the UNFCCC/Kyoto Protocol, in general, and the Kyoto mechanisms and the STEP project, in particular, in order to engage actively in the AIJ pilot phase. The Romanian government could take advantage of the offer made by Switzerland to co-finance capacity-building activities under the Swiss–World Bank Collaborative Initiative on National AIJ/JI/CDM Strategy Studies³

³ For further information refer to http://www.admin.ch/swissaij/ac_cb_strategystudies.html.

1. BACKGROUND

LEAD - Leadership for Environment and Development - was created in 1991 as a world-wide network of training programmes dedicated to developing the skills and competencies required to address today's complex environmental, social and economic challenges. Participants in the European Programme of LEAD (LEAD-Europe) are mid-career professionals from different sectors in Western, Central and Eastern Europe. The objective of the LEAD training is not only to inform its participants about environment and development issues, but also to equip them with the skills required to contribute effectively to the debates and processes that promote change.

Progress in achieving sustainable development relies on open and transparent negotiations between different stakeholders. As part of their joint training course in Moldova and Romania in September 1999, the LEAD programmes from the CIS countries, India and Europe have prepared a case study on an AIJ project between Romania and Switzerland in the form of a roundtable for the stakeholders of this project.

2. PRELIMINARIES

As a preparation for the Roundtable, the group of 45 LEAD Associates (15 from each LEAD Member Programme) had received a complete documentation about the STEP project six weeks prior to the training session. At the beginning of the session, they were introduced to the key aspects of Joint Implementation, energy policy in transition economies, and theoretical details about the STEP project and relevant parts of the EBRD feasibility study on district heating modernisation.

They were received on Sunday, 26 September, by the Vice-Mayor of Buzau, Mr. N. Franculescu, in the presence of Mr. V. Busioc, Director of the Regia, and Mr. F. Sigert, Head of the Project Implementation Unit of the EBRD-funded Thermal Energy Conservation Project. All three expressed a keen interest in the STEP project, which is seen as a positive development.

The Vice-Mayor stressed the municipality's wish to nurture ties with Western Europe. The director of the Regia described their achievements in modernizing the utility and in preparing themselves for the future reform of all the Regias in Romania. Mr. Sigert provided details about the financial management of a local utility company. He mentioned that the implementation of the EBRD project was proceeding without major problems apart from typical construction delays and noted that success with the modernization of district heating systems will depend on financial planning for the depreciation of the investment, inflation and fiscal changes. However, as capital was a free good in planned economies, the Regia had little experience in financial management. The EBRD investment will not guarantee the long-term viability of the utility unless repair and maintenance costs are adequately included in the Regia's tariffs to customers.

3. ORGANISATION

Seven stakeholder groups involved in the project, i.e. the Romanian government, the Swiss government, the Buzau municipality, the local utility company "Regia", the tenants of the buildings concerned, private companies and environmental NGOs were invited to participate in a Roundtable debate, which was held in the Buzau City Hall on Monday, 27 September 1999.

The preparation and organization of the Roundtable was made possible by the Swiss State Secretariat for Economic Affairs, which provided financial support. It was also greatly facilitated thanks to the kind support provided by:

- the municipality of Buzau, which kindly offered the City Hall as a venue
- the Regia, which delegated its best English speakers to interact with the LEAD Associates and staff
- the private contractors of the Regia, who provided equipment for the meeting
- the Swiss Embassy in Bucharest, whose demarche to the Romanian Ministry of Environment helped in obtaining their expression of support for the event
- Stanislav Kolar from the Centre for Clean Air Policy in Prague, who accepted to moderate the dialogue
- Alexander Lüchinger, a consultant advising the Swiss Government, who provided a background paper for the discussion on the AIJ project.

4. STAKEHOLDER PERSPECTIVES

The Roundtable dialogue allowed participants to clarify their perspectives, needs and expectations with respect to the implementation of the STEP. They are described in detail in the following sections.

The Regia

The Regia receives heat and electricity from the national utility company RENEL and provides heating, electricity, transport and water services to the population of Buzau. The Regia employs 720 workers and is currently under the ownership of the municipality. The modernization of its operation was referred to as "production mechanization".

The director of the Regia expressed interest in learning more about the economic and technical issues that the Regia will have to face with the next federal plan for local utilities in 2001-2004. Compliance with governmental regulations seemed to be his major concern. He did not refer to energy efficiency as an objective, which points to a lack of economic thinking and insufficient evaluation of future price changes. It is important to note that prices for district heat are not uniform in different cities, as the national government subsidises district heating as a function of the income level of the population and other considerations. This is shown in the data used in the feasibility study for the EBRD project. Evidently, the Regias and the municipalities have to negotiate these differences with the Romanian government. In Buzau, the proportion of unpaid heating bills between 1993 and 1995 was on average 23%, which is not unusual in the Romanian context. In the past, financial deficits in the

Regias were passed on to the federal government's budget. This practice will stop with the planned privatisation.

The director also mentioned the Regia's experience and skills in using a national tendering procedure for the purchase of equipment. These tenders have attracted foreign suppliers as well as, occasionally, local companies in Buzau. The director stressed that maintenance services were part of the tenders they emit and that the skill level of the Regia's employees had to be taken into account. While the Regia handles the tendering process, it consults with the Ministry of Public Works on the selection. The Regia also makes efforts to improve relations with their customers. Meetings with the Tenants' Associations are held on a weekly basis. The Regia is undergoing a profound institutional reorganization. In terms of technical and financial management, it will continue to require assistance in order to build the business skills needed for a private company, a status which, although approaching rapidly, was not thoroughly planned for. During the Roundtable discussion, the director of the Regia tended to react only to the statements from private companies (ABB and Swisspoor), but not to those from the government or NGOs.

LEAD Associates concluded that for the Regia to operate the STEP equipment in a manner that would allow it to meet the Swiss government's CO₂ emission objectives, what would be needed is:

- to assess in greater detail the Regia's learning from the EBRD project in terms of managerial capacity
- to prepare for further financial management advice, so that the Regia is able to make the best use of the STEP equipment. The Regia might not be able to identify the optimal operating conditions. It will have to decide to whom to sell the electricity generated with the cogeneration unit, and how to react to price changes for fuel and electricity. The liberalization of the Romanian electric power market will occur within the next 2 to 3 years, resulting in considerable downward pressure on prices
- to evaluate how the Regia's tendering competence can be strengthened. Their responsibility for different components of the STEP could be enhanced in order to improve their organizational skills in management and procurement.

Tenants Association

Ownership of the flats in housing blocks was transferred to the inhabitants several years ago. Tenants Associations were established for most housing blocks, including *owners* of flats or housing blocks despite their denomination. A representative from the largest Tenants Association was present at the Roundtable.

She stressed that the Buzau inhabitants and people living in flats had no other option but to rely on what the municipality offered to them. She indicated that the inhabitants were thankful for the EBRD project. As concerns the STEP, she remarked that inhabitants had considerable problems with the thermal insulation, but that it was impossible for them to obtain loans for long periods such as 10-20 years. There were no banks or other institutions capable of providing the owners with such loans. The representative from the Tenants Associations did not react to statements made by the other Roundtable participants. To a question from a LEAD Associate about the benefits of CO₂ emission trading, she responded that once the tenants had better living standards, they would be interested in the increased efficiency of the services provided to them.

It appears that the inhabitants are not aware of the differences between the EBRD-funded project and STEP, and lack understanding of the different conditions of the financial support given to the Regia. Tenants are in a fully dependent position and seem ready to fulfil the

conditions imposed by foreign funding agencies. Additional efforts might be necessary to raise public awareness, for example on the fact that the Swiss government will receive a return for its investment in the form of CO₂ emission reduction credits.

Private Sector

Of the fifteen companies invited to the Roundtable, two joint ventures companies - ABB Energo and Swisspor SA – participated (the Executive Director for the latter and the Marketing Intelligence Manager, the Sales Director, and the Marketing & Business Development Manager for the former). None of the thirteen Romanian companies invited⁴ attended the Roundtable.

ABB Energo is a major supplier of equipment to other ABB companies, in particular of pipes and spare parts for turbines and boilers. Most of their production in Romania is exported. ABB defines itself as an energy service company. The representatives from ABB noted that projects such as STEP serve to create new markets and investment opportunities in Romania. While ABB does not specialize in district heating equipment, the company produces cogeneration and other equipment, which can be used for district heating. Systems such as the STEP equipment could be replicated approximately 500 times throughout Romania. Similar conditions exist in all other Eastern European countries and especially in Russia.

Swisspor manufactures insulation material for the Romanian market. The representative from Swisspor explained that the Romanian market for energy saving equipment was still in infancy. He anticipated that it would take another 10 years before this market achieves a reasonable size. Energy efficiency investments can yield returns over three to four years given the equipment used currently. At the present stage, it was necessary to raise people's awareness and legislate on tax benefits, regulations and standards.

The private sector has a clear understanding of the pilot role of Joint Implementation projects and of their potential for future developments. However, the absence of Romanian companies seemed symptomatic of a lack of awareness in the Romanian private sector about opportunities generated by AIJ projects. Indeed, because of the replicability of the STEP in most district heating systems in Romania, Romanian companies could minimise the cost of replication by developing packaged solutions and reduce the technical and economic risk of modernisation.

Romanian Ministry of Water, Forest and Environmental Protection

The Head of the General Directorate for European Integration, Programmes, Projects and International Relations of this Ministry, Mihai Cozariuc, welcomed the proposal to hold the Roundtable and sent a representative. Mr. Constantin Harjeu underlined the Romanian government's commitment to promote and implement the instruments of the Convention on Climate Change and to co-operate with Annex II countries to reach the Kyoto reduction goals. The STEP project is a good illustration of the Romanian government's policy on climate change. Romania is negotiating a new bilateral agreement with the Netherlands, which would cover all Dutch climate mitigation efforts in Romania and allow Romania to move beyond the case-by-case approach that it had pursued so far. This agreement with the Netherlands would be the first of its kind for Romania. Moreover, Romania is preparing to

⁴ *Apcarom and Ductil from Buzau, GE-PO Group, Remero, EU-RO Instalatii, Genarom and Camiconi from Bucharest, and Casa, Technic Asist, Instalatii Gevis and Romterm from other regions in Romania.*

launch a national strategy study on greenhouse gas reduction, hoping to receive assistance from several foreign donors including the World Bank.

Mr. Harjeu mentioned the Romanian government's interest in acquiring more experience with JI projects, which are seen as an opportunity to install modern technology while providing clear benefits to the local population, the city and the environment. However, although the LEAD Associates questioned him on the respective benefits of the AIJ project for Switzerland and Romania, in particular as concerns the local population, he appeared unwilling to provide details. The discussion, overall, showed that the Romanian Ministry of the Environment is committed to the STEP and keen to use it as a learning experience. On the other hand, its interventions with the other stakeholders, private sector, NGOs and the municipality were not clearly articulated.

Swiss Government

Alexander Lüchinger, a consultant advising the Swiss government on the STEP project, outlined the Swiss perspective. He explained that the STEP was viewed an investment for which the CO₂ saved represented the interests. The technological choices regarding cogeneration for district heating reflect the Swiss concern to achieve a strong demonstration effect from the STEP, which would stimulate future efforts from the private sector. At 14 US\$ per ton of CO₂ saved, no private investor would make such an investment as there are currently cheaper opportunities.

While the initiative for the STEP originated from the Romanian side, the Swiss government actively shaped the project to reflect the Swiss climate change policy of complying with the JI conditions set out in the UNFCCC. Therefore the Swiss government offered the Romanian Ministry of the Environment three different credit sharing approaches to the STEP, i.e. an abatement cost approach, an investment cost approach and an incremental cost approach. A baseline definition was developed, which was qualified as generous and comprehensive by all Roundtable participants. The constructive spirit in which the Swiss authorities had applied the JI conditions is well reflected in the technical and the accounting choices in the definition of the STEP. Nonetheless, it appeared during the Roundtable that the other participants were insufficiently aware of this orientation of the STEP. For example, the fact that the CO₂ credits correspond to the improved efficiency of the use of fuel in the district heating system was not clear to all.

During the discussion, Mr. Lüchinger clarified the issue of third party verification for CO₂ credits. The Swiss government is in the process of selecting a consultant to prepare a "monitoring and verification protocol" (MVP) for the project. This MVP will be agreed by the Swiss and Romanian governments and will serve as a basis for third party verification, in accordance with provisions contained in the Memorandum of Understanding (MOU). Mr. Lüchinger underlined that JI can develop into a major market for Swiss equipment manufacturers. The replicability of the STEP project, therefore, promotes both the climate change and economic objectives of the Swiss government.

Mr. Lüchinger noted that the preparation of the STEP had been a lengthy process and that it had not been possible to involve all parties sufficiently, partly because of the need to privilege the Ministry of Public Works and regional Planning and the Ministry of the Environment as the main Romanian interlocutors. It was recognized, however, that the involvement of all partners, especially Romanian NGOs, was needed to ensure the replicability of the STEP.

Romanian NGO

Terra Mileniul III, a Romanian NGO participating in the Climate Action Network Central and Eastern Europe (CANCEE) was represented at the Roundtable. CANCEE is an umbrella group bringing together NGOs from the Central and Eastern European region, which are concerned with the growing impact of climate change. As a regional grouping of the global Climate Action Network, CANCEE is part of a worldwide organization counting some 280 organisations representing over 10 million individuals.

The founder of Terra Mileniul III, Lavinia Andrei, is also a LEAD Associate. She noted that JI projects are a valid option if they benefit the environment and economic efficiency, if they are institutionally independent, transparent and verifiable. They should not create a loophole that allows high per capita emitters to avoid taking national measures. The Kyoto Protocol not only calls for greenhouse gas emission reductions, but also for the promotion of sustainable development in general. The STEP corresponds well to this orientation.

Terra Mileniul has followed the development of the STEP project but found it impossible to be involved in the decision-making process. Mrs Andrei confirmed that the project was technically sound, but that it was lacking provisions to achieve some institutional learning on the Romanian side. The STEP development was not maximizing opportunities for a learning experience at the local and the national level, in spite of the fact that the STEP would yield benefits to the local population. While the Ministry of the Environment had declared prior to the Roundtable that there was a clear set of criteria for the selection of JI projects, such a list was never published. Consequently, it was difficult to know how the impact of the STEP would be measured. This lack of transparency was compounded by a lack of legal entities to deal with JI, the lack of a national system for inventory and information reporting and no formats for evaluation and crediting.

Since these conditions do not yet exist, NGOs have an important role in mobilising support for JI in Romania, finding JI opportunities and facilitating contacts between foreign JI partners and local institutions. In Romania as well as in other East European countries, NGOs employ competent researchers with the necessary technical and economic skills to undertake feasibility studies, devise implementation and monitoring plans and provide auxiliary services to JI. Their knowledge of local institutions is a key asset.

In her conclusions, Mrs Andrei suggested that institutional factors were major obstacles to an efficient implementation of JI projects, and that local institutions in particular would need enhanced assistance to overcome these obstacles.

Contributions from the Resource Persons

Stan Kolar (Centre of Clean Air Policy, Prague) and Arnold van der Post (Hanzeconsult, the Netherlands) have been working on many JI projects in Eastern Europe, advising West European governments and providing engineering and management services. Their remarks during the Roundtable focused on the general conditions for JI.

Following 50 years of public ownership of district heating systems, private ownership with an interest in sustainable growth is only starting to appear. This creates a context where local institutions are not supportive of efficiency improvements and might delay JI projects. On the other hand, the Dutch experience in Hungary shows that recently privatised district heating companies can develop specific modernization proposals and are able to “shop around” amongst JI investors. The initial contact between a foreign JI investor and a local host is the most crucial factor for the success of JI projects.

In addition, there is a need for accompanying measures to disseminate information. The most efficient manner to create public awareness has often been a conference for local NGOs. Local NGOs are familiar with the relevant institutions so that basic parameters of a JI project can be announced, discussed and a consensus created.

Kolar and van der Post agreed that the private sector is interested in JI when national legislation in their home countries creates incentives for investments. Denmark and the Netherlands are likely to be the first countries where CO₂ emissions fees or penalties will be introduced. At present, a CO₂ trading scheme is in operation in the U.S. with emission rights amounting to 1 US\$ per ton of CO₂. Multinational companies such as Holderbank and BP are using trading schemes internally as a management tool for CO₂ emission mitigation.

5. ASSESSMENT BY THE LEAD ASSOCIATES

Some economic parameters of JI and the comparison between Romanian and Swiss benefits were the cause of disagreement amongst the LEAD Associates. Establishing the equivalence of benefits provides additional incentives to replicate JI.

Despite current variations, it should be possible to elaborate scenarios for the Romanian energy sector. It would be enlightening to extrapolate from the basic parameters of the STEP project to the benefits under the conditions of EU accession. The current EU regulations can be applied to the Romanian energy prices and to the current emissions from the equipment operated by the Regia. This would allow to estimate the additional investments or costs that the STEP project will save to the Regia and the local population.

A second objective for such scenarios would be an analysis of the energy consumption trends. It is possible to start with the current energy intensity of industrial production in Romania and, based on a comparison with other countries, estimate when the energy intensity of production will attain the conditions in Western Europe. While this is certainly a difficult prediction, it would allow to verify a key concern for the Romanian side, what will happen when future economic growth in Romania lets the country exceed its 1990 CO₂ emissions! These economic parameters would clarify the Romanian concern whether the cost of CO₂ reductions in the STEP to the Swiss would be above future opportunity costs to Romania. Similar concerns exist in other Central and Eastern European countries and providing these parameters would allow to attenuate them.

It was clear to LEAD Associates that the STEP effectively combines local benefits and benefits to the Swiss economy. But the process which led to the definition of the STEP only took into account the perspectives of the Romanian and the Swiss governments. Their climate policy has informed choices about the sharing of benefits. However, local conditions yet to be identified can have an impact on the STEP project, such as for example the difficulty encountered by inhabitants to find financial assistance for insulation investments.

In addition, in a situation where the local partner (the Regia) is facing an uncertain future, institutional and organizational dimensions of JI are critical. In order to implement a JI project in a transition country, it is necessary to anticipate that certain managerial functions cannot be fulfilled locally. In the absence of local involvement (esp. the Regia and the municipality), local concerns, needs and potential benefits are unlikely to be incorporated in the thinking of different national government Ministries (Environment, Finance and Public Works). Mechanisms for re-negotiation of the JI project and risk insurance might be advantageous in this context (the Norwegian insurance company Storebrand currently prepares such insurance products).

6. CONCLUSIONS AND RECOMMENDATIONS

The STEP is a sound and an important demonstration project for JI. District heating modernisation is a frequent and well-established type of energy conservation application, and the technical and economic parameters are highly replicable. In the Romanian context, it is clear that the critical features of the STEP are of institutional and organizational nature. As indeed intended, AIJ projects are exercises in establishing institutions and administrative processes which can improve the transparency and effectiveness of future JI programmes.

The negotiation of the STEP project lasted longer (3 years) than anticipated, which reflects the fact that the institutional learning process in Romania did not receive sufficient attention. This situation is not unlike much development assistance to developing countries. Process approaches targeting local institutions, rather than assistance focused on project and technology, would offer a solution. Such process approaches include sector studies where a whole set of economic actors, large, small, foreign, local, private and public, are analysed to identify how their operations can be improved. In the case of the Romanian-Swiss STEP project, such a process approach would look at Romanian engineering companies, energy service companies, financial institutions, consumer associations and NGOs, and identify missing economic actors. In the transition phase in Eastern European countries, the absence of market intermediaries and the slowly appearing dynamic of civil society can create lasting market imperfections. To express it in concrete terms, if the Regia does not build the planning capacity to forecast how an investment will affect their economic situation in future years, it might continue, for example, to adjust its maintenance efforts as a function of the revenue they generate instead of the actual needs of the equipment they operate.

As a result of the Roundtable and subsequent consultations, the following recommendations can be made, which would potentially improve implementation of the STEP or other similar JI projects:

- Identification of suitable partners to monitor the local impact of the AIJ project

A suitable partner to monitor the local impact of the STEP project would facilitate co-operation between the Romanian and the Swiss authorities. Such a monitoring institution should have experience with the Romanian energy market in order to be able to quantify the impact of the STEP. This requires a definition of the energy consumption and price evolution without the STEP. Since partners from outside Romania are not familiar with the Romanian energy market, a suitable partner would be an institution working on energy issues at national level. One can conclude from the Roundtable discussion that there is no such potential partner in Buzau. However, the Romanian Energy Policy Association (APER), the Romanian Energy Conservation Agency (ARCE), and the Romanian Energy Cities Network could be potentially interesting. All three have developed training activities for energy efficiency and therefore would not only be able to provide an assessment of the STEP impact, but also suggest measures to remedy problem in the STEP project operation. They should be able to provide monitoring services for fuel use and energy efficiency, other environmental aspects, social aspects and economic aspects of the STEP.

- Comparison of the Thermal Energy Conservation Project's outcome in Buzau with the economic parameters assumed in its feasibility study

Concerning the outcome of the EBRD's Thermal Energy Conservation Project, it should be noted that the feasibility study elaborated in 1996 contained a number of optimistic assumptions about the economic conditions in Buzau, in particular as concerns the disposable income of the inhabitants. While the feasibility study assumed a steady rise in

net incomes (Assumption A), in reality net incomes have continued to decline to this day. The feasibility study estimates that heating bills should not exceed 8% of disposable incomes (Assumption B). It also assumes that subsidies from the Romanian government would be eliminated by 2001 (Assumption C). This is contradictory as continued subsidies to the Regia will be necessary to limit heating bills to 8% of disposable incomes. This will be attenuated by income generated from electricity sold through the STEP project, but the conditions for these sales cannot be ascertained. Nonetheless, the STEP project should not be affected by the failure to attain the planned rate of return in the EBRD project.

Procurement of local equipment

- Direct procurement of equipment by the Regia should be expanded. As an institution, the Regia has strong incentives to improve their procurement competence and given the opportunity, the Regia could enhance this competence. The Associates were not able to discuss past procurement with the Regia in detail as most of the time was used to clarify the Romanian and Swiss benefits from the STEP. Therefore, more specific recommendations could not be identified.

Analysis of procedures of Romanian institutions for approval and implementation of AIJ projects and recommendations for improvements

- Procedures for approval and implementation of JI projects in Romania have to be developed for all JI, but also to replicate the STEP project. During the Roundtable, no information was provided about the procedures currently envisaged by the Romanian government. The potential of JI for the Romanian Regias is important and West European energy companies are targeting this sector. However, without clear procedures, they are unlikely to take initiatives in Romania. As long as the regulatory framework for privatisation of the Regias is not established, it appears unlikely that JI procedures can be elaborated. In this situation, two elements of JI approval can be realistically transformed into standard procedures in the Romanian context: the financing of the local costs of JI projects and the standardisation of baseline methodologies. Other aspects of JI projects require standard procedures, but these two are the most important ones. The other aspects will unfortunately continue to be dealt with on a case-by-case basis.

Regarding local costs, an alternative to the experience of the STEP project, which leaves this question to the discretion of the Romanian Ministries, was chosen in the German JI project in Cluj-Napoca. In this case, the foreign JI investor (the city of Cologne) and the concerned Regia created a joint venture company, which built and operates the cogeneration system in the district heating of the city. Twelve months were required between the creation of the joint venture and the start-up of the equipment. While this approach makes it easier to handle commercial and contractual matters, the JI approval by the government remains the major uncertainty. The only apparent source of procedures to facilitate future JI projects is the Ministry of Public Works. This Ministry should be in a position to elaborate a standard feasibility format to design cogeneration units for district heating, which the other Ministries could use. This methodology could comprise a format to define heat loads, suitable cogeneration technologies, and most importantly costing estimates for construction and equipment. A potential JI investor could refer to such a feasibility format when approaching the Ministry of the Environment for a confirmation of available funding. Furthermore, inconsistent assumptions such as those made in the feasibility study for the EBRD project would be easier to avoid.

The second aspect of the approval of JI where some progress could be made in Romania is the standardisation of baseline definitions. Baselines for JI should be defined specifically for each country, as well as for different economic sectors. This requires that a responsible institution be designated to deal with baseline definition. Such an institution could also certify

potential third party services for JI, act as a clearinghouse for JI information, and propose and analyse baselines for CO₂ emission accounting.

Financing energy conservation investments in private buildings

Some banking institutions in Romania have received assistance from the EBRD to provide loans for energy conservation investments such as insulation in private buildings. Before creating new financing programmes, it is necessary to investigate why these banking institutions have not been able to provide loans for insulation.

How to improve the flow of information among project stakeholders and the transparency of AIJ implementation, and suggestions for new forms of consultation with local organisations

In order to improve information and consultation, three different actions should be initiated. First, the Regia, the municipality and the Tenants' Associations should be informed about the content of the Memorandum of Understanding between the Romanian and the Swiss government. This is the first step to improve the local understanding of what STEP can achieve. Secondly, the stakeholders should agree on an objective for the timing of implementation as well as on decisions regarding procurement and installation of equipment. Common definition of objectives would improve the flow of information and the level of support. Thirdly, the respective interests of, and benefits to, the stakeholders should be further clarified. This can only be achieved through repeated multilateral exchanges and consultations. To institutionalise such a cycle of consultations, the seven stakeholders could create a STEP consultation group to which each stakeholder would delegate a permanent representative. As concerns private industry, a representative from the local chamber of commerce or a similar body should be invited, ideally by the Regia. In the initial phase, this group could meet every three months to identify potential modifications in the STEP implementation. Obviously this consultation group should meet in Buzau, have no legal status or statutes, and function only through the communication of minutes of each consultation group meeting. These minutes could be published in the appropriate form.

Capacity building opportunities to improve knowledge of climate change and the Kyoto mechanisms in the Romanian government

The Roundtable discussion revealed that Romania would benefit from enhanced capacity and knowledge with respect to the UNFCCC/Kyoto Protocol, in general, and the Kyoto mechanisms and the STEP project, in particular, in order to engage actively in the AIJ pilot phase. The Romanian government could take advantage of the offer made by Switzerland to co-finance capacity-building activities under the Swiss–World Bank Collaborative Initiative on National AIJ/JI/CDM Strategy Studies⁵

7. ACKNOWLEDGEMENTS

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⁵ For further information refer to http://www.admin.ch/swissaij/ac_cb_strategystudies.html.