

## Point Carbon: Carbon Market Insights 2011

# New Mechanisms in the next climate regime

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1. The concept of new mechanisms
2. What is the potential for emissions reductions?
3. What is the role of the private sector?
4. Critical issues to be solved

# 1. The concept of new mechanisms (background)

Several new mechanisms might arise in the next climate regime.

## Scenario options in the next climate regime

### Option A

- ✓ All in one single legal framework (protocol)

### Option B

- ✓ Extension of KP+ $\alpha$ 
  1. KP II + new protocol or
  2. KP II + COP decision

### Option C

- ✓ Pledge & review without a legal framework

## Implications for new mechanisms

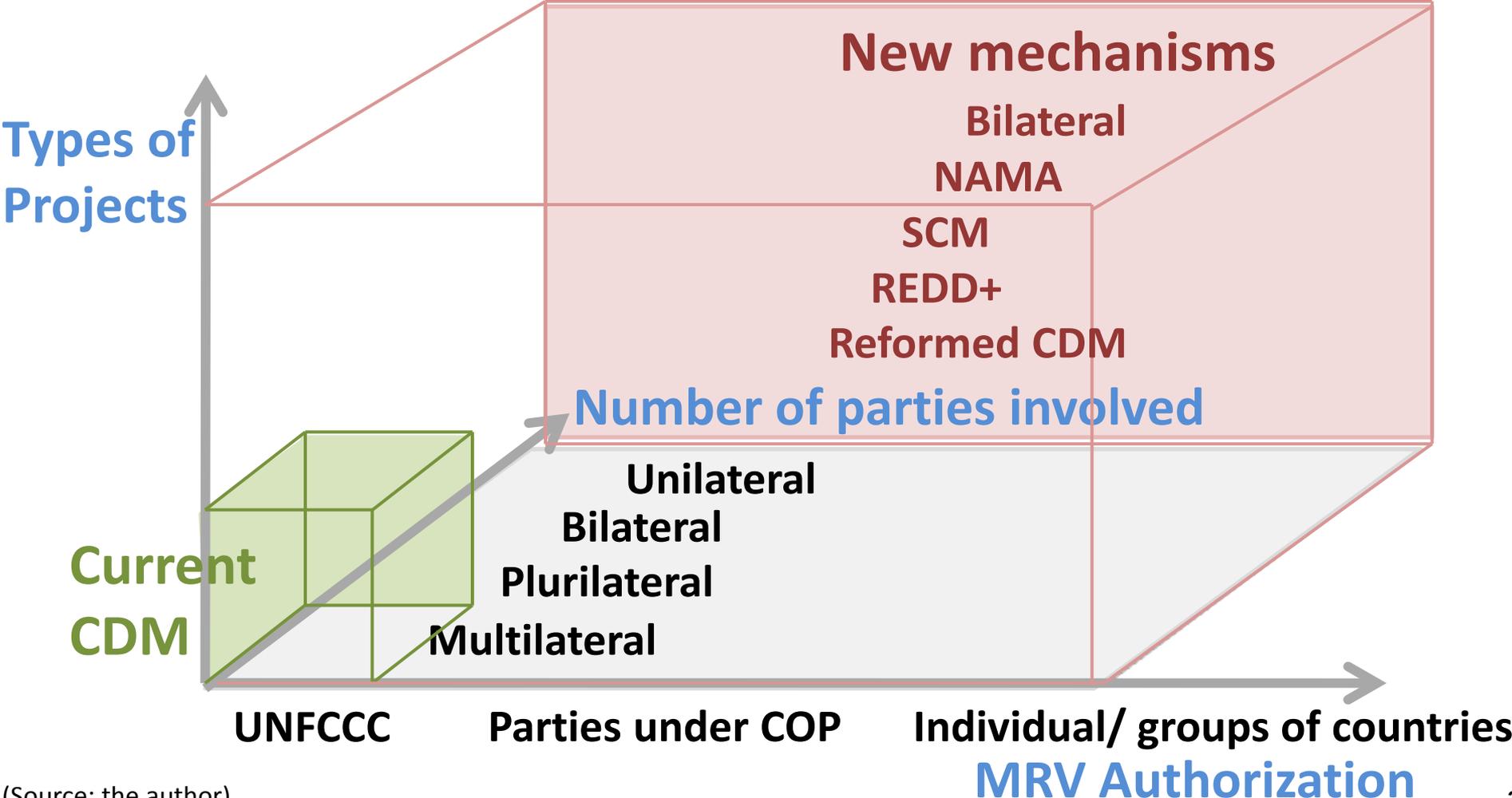
- ✓ Internationally-accepted standards for additionality, transparency, etc

- ✓ Mix of Option A & C

- ✓ No single rule – fragmented markets

# 1. The concept of new mechanisms

Key issues with new mechanisms are “MRV”, “types of projects”, and “number of parties involved”.

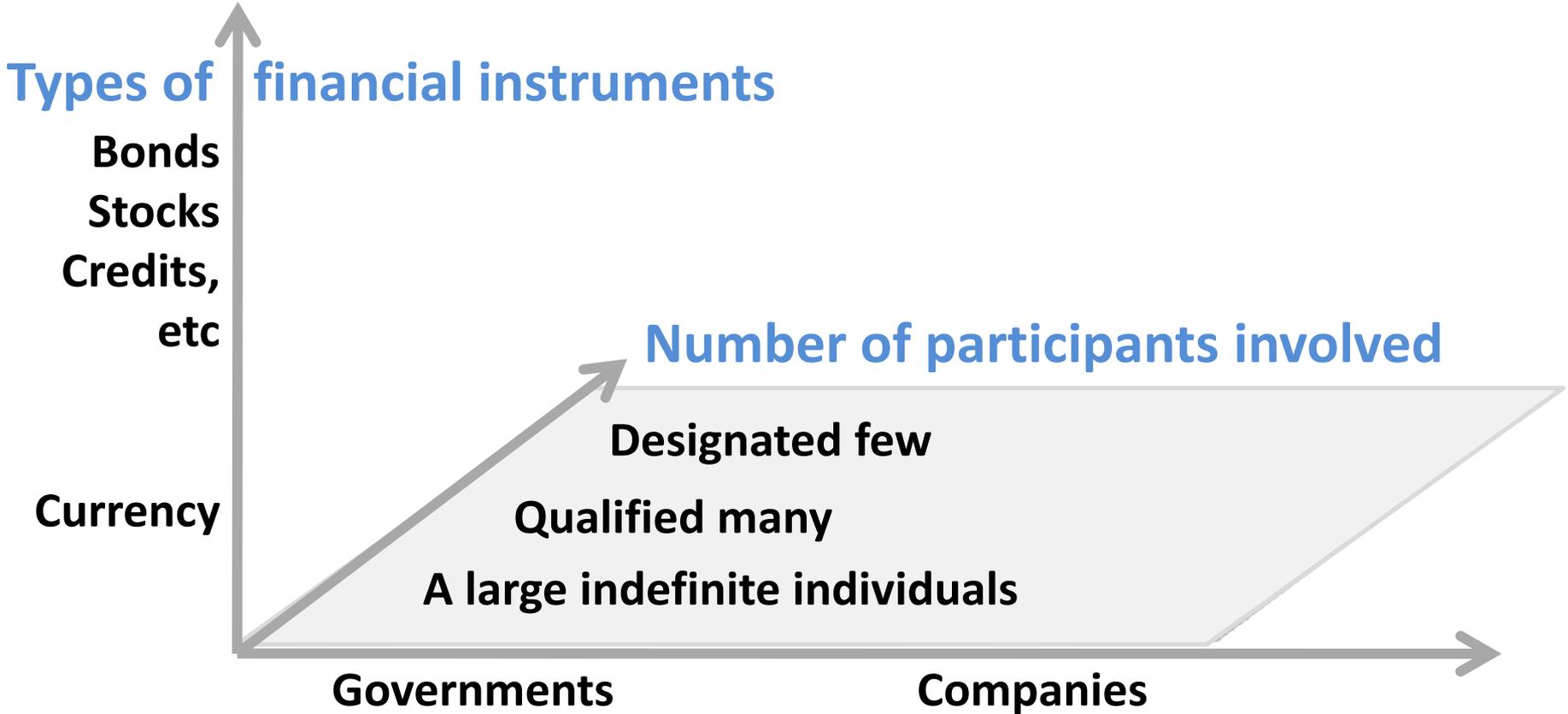


(Source: the author)

# 1. The concept of new mechanisms

What is your view on risk-return profile?

(Reference) Image in the financial market

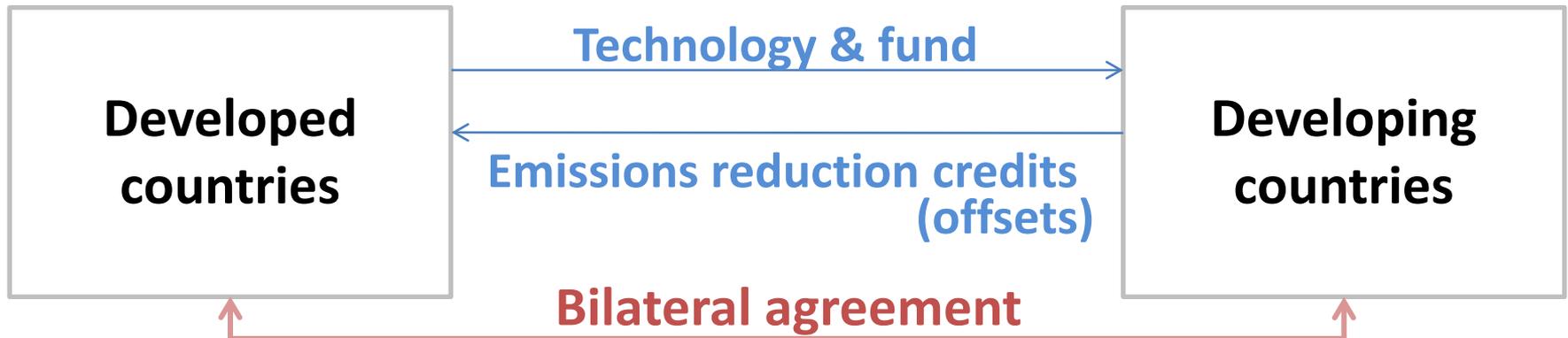


(Source: the author)

# 1. The concept of new mechanisms (Japan)

The Japanese govt. is proposing a bilateral mechanism.

Concept of the bilateral mechanism proposed by the Japanese govt.

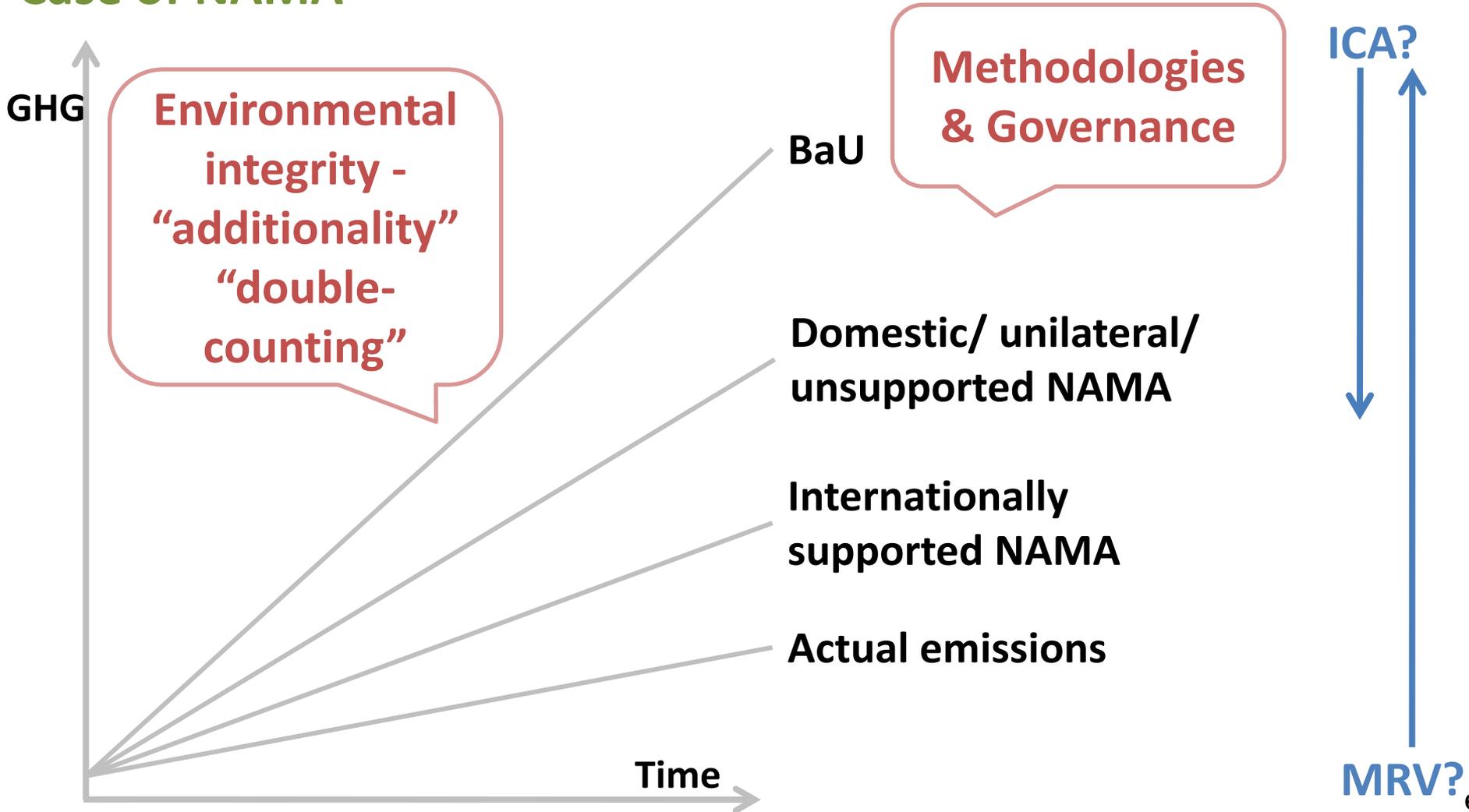


- ✓ GHG reductions must be measurable (?)
- ✓ MRV must be able to conduct under international standards (?)

# 1. The concept of new mechanisms

A lot of issues must be sorted out, before implementation.

## Case of NAMA



## 2. What is the potential for emissions reduction?

Potential size will largely depend on the international acceptance to nuclear power, CCS, and reductions in the transportation sector.

33 projects currently undertaken by the Japanese govt. for feasibility studies on new mechanisms

### # Project types

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#### by Ministry of Economy, Trade, and Industry

- 7 Power generation (coal-fire, geothermal, nuclear)
  - 7 Energy efficiency (plant, home-electronics, etc)
  - 7 Industry (steel, cement, chemicals)
  - 4 REDD+
  - 2 Transportation
  - 1 CCS
  - 2 Others (Housing, energy transmission & distribution)
- 

#### by Ministry of Environment

- 1 Waste & waste water management
  - 1 Transportation
  - 1 Peat management
-

### 3. What is the role of the private sector?

The role of a government under a bilateral mechanism will probably become larger than a current CDM...

#### Role of a government under a bilateral mechanism

- 1. Establish an (internationally agreeable) mechanism**
  - Need to determine MRV standards & how to link a bilateral mechanism with domestic targets and systems (e.g. ETS)
- 2. Enter into agreements with other countries**
  - Need to agree with the terms of the MRV & what credits to be transferred
- 3. Secure a certain level of credibility and transparency**

**... because a government needs to design the system  
and guarantee that it works!**

### 3. What is the role of the private sector?

The role of the private sector will depend on how new mechanisms are structured.

#### Role of the private sector under a bilateral mechanism

- ✓ Roles of the private sector under a bilateral mechanism **may become smaller than CDM, if a bilateral mechanism works similar to JI and does not require credit exchanges in a market.**
- ✓ **If bilateral credits are going to be exchanged in a market, a government would probably need to guarantee purchasing of credits from companies.**
- Who would purchase credits under a bilateral agreement, if a government does not guarantee purchasing?

## 4. Critical issues to be solved

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### 1. Will new mechanisms help reduce overall GHG emissions globally?

**Yes,** if new mechanisms secure “additionality” and transparency in MRV processes, and if they do not cause double-counting problems.

**No,** if new mechanisms just employ looser criteria than current CDM, and if they cause double-counting problems.

## 4. Critical issues to be solved

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### 2 . Wouldn't new mechanisms kill current CDM?

**No,** if the world comes up with a way to clearly distinguish new mechanisms with current CDM.

**Yes,** if they just employ looser criteria than current CDM.

## 4. Critical issues to be solved

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### 3. Are new mechanisms going to provide any benefits to developing countries?

**Yes,** if credits generated from new mechanisms are “additional” and the volume is greater than current CDM, and an increase in volume surpasses a reduction in price, if they come with an additional funding, and if they do not damage domestic industries by an escalated volume of technologies and products flowing into developing countries from developed countries.

**No,** if they just increase “non-additional” emissions credits and crowd out current CDM, and if they do not come with an additional funding.

## 4. Critical issues to be solved

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**4. Are new mechanisms going to provide any benefits to developed countries?**

**Yes,** if new mechanisms enhance exports of technology and products to developing countries, and if they reduce a cost of emissions reduction domestically and internationally (including the increase in additional funding provided).

**No,** if they do not enhance exports of technology and products to developing countries, if they do not reduce a cost of emissions reduction, and if they reduce economic efficiency by serving as subsidies to designated industries which potentially violate WTO rules.

## 4. Critical issues to be solved

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**5. Will new mechanisms be accepted by the international society?**

**What do you think?**

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# Thank you.

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