Possible configurations of a global market using existing mechanisms

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Carbon market mechanisms

- **Can capture at least 50% of the world’s emissions**
  - Large point sources (ETS)
  - Large and small point sources (CDM/JI)
  - Mini-micro-scale sources (Programmatic CDM)

- **Scope of emission sources need to be expanded as part of a Paris deal**
  - Sectoral schemes and national programmes (CDM and NAMAs) e.g. airlines, maritime, transport, cement, etc
  - Forestry – (A/R & REDD+ through CDM)

- **Co-benefits**
  - Often misunderstood, taken for granted, or assumed
  - Project based mechanisms have a positive impact on communities and the countries that they are hosted

- **MRV**
  - Well established at project based level and ETS
  - Capacity from third party auditors (decreasing)
Carbon pricing is here to stay

Domestic carbon markets are spreading and linking up around the world, and are likely by 2015 to cover some 4 billion people

Climate finance needs to mobilise private sector

- **Private sector accounts for 70% of GDP and 70% of employment**
  - At least USD 500 billion already targeted low carbon projects
  - Carbon, renewable energy, energy efficiency, forestry specific funds

- **Green or Climate-themed Bonds**
  - Started off with Public and Multi-lateral funds raising finance
  - Now corporates using to finance assets either for new projects or refinancing
  - USD21 billion raised globally, USD 10 billion in 2013 alone, and USD 40 billion expected in 2014 (New Energy Finance)
  - Wider scope than carbon

- **Impact Investing**
  - Looking for a social return as well as other climate related – voluntary carbon market (stoves etc.)

- **GCF, MDB’s, AF – Public finance leveraging private sector**
  - MDBs – poverty alleviation targeting least and less developing countries
  - GCF – still needs to be financed and decide where and how it will finance
  - Important role for adaptation fund
Role of CDM?
Current situation – short term

**Oversupply leading to:**
- Writing off of assets, funds moving to other markets
- Projects being abandoned (GHGs not being reduced or at least verified)
- DOE dissappearing
- Co-benefits being lost

**Total Supply = ~5.8bn**
- EU ETS eligible CERs/ERUs
- Risk adjusted volumes

**Note numbers from 2013: imbalance may be higher now**

**Total Demand = ~2.9bn**
- EU Sovereigns
- EU ETS
- Domestic ETS: China, S Korea
- Others

- Note: Although the supply is risk-adjusted, it does account for projects that will not issue at low prices
- Source: Barclays Capital, 13 January 2013
- Supply volumes are eligible EU ETS supply, and demand includes pre-2012 commitments
Some demand coming from Sovereigns and multilaterals
- Sweden, NEFCO, World Bank Methane Facility, Biocarbon, CIF
- Targeting specific project types and countries

Voluntary market
- Charismatic projects with co-benefits
- Increasing corporate interest including from Asia

Domestic ETS and carbon tax schemes taking up some slack
- China, South Korea, South Africa taking some domestic offsets
- Europe’s demand coming to a standstill, ETS reform unlikely to help
CDM: Longer term – crucial role if demand increases

- **Providing flexibility**
  - Linking between ETS schemes
  - Expanding scope
  - Delivering results based finance through GCF, Green/Climate themed bonds, and other schemes
  - Net mitigation where CDM can contribute to host country efforts (already happening in China, S. Korea, S. Africa in some way)

- **Issues to be resolved**
  - Keeping choice for countries to select what type of CERs and how much they may use
  - Could be simplified for use for other purposes such as offsetting (see VCS) or adapted to be used by bond and results based finance
  - Expansion into new sectors need to be efficient
  - If demand increases, we need a system that can cope – increased clarity, certainty, efficiency
  - Need price convergence through linking (direct or indirect)
  - Price stability: carbon reserve?
  - Net mitigation (double counting issues)
  - Comparable MRV between mechanisms
Fitting it all together

Must Leverage Private sector Finance

- Least cost options
- Linking

- Funding in least and less developing countries

CDM

MDBs, GCF, AF

MRV

NAMAs, NMM

- Already established with CDM can be enhanced for other programs

- Domestic efforts in more advanced developing countries

Domestic efforts in more advanced developing countries

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Conclusions

- Carbon market mechanisms have probably the most important role in fighting climate change

- Action (demand) needs to be now to keep private sector engagement and not to lose time for mitigation/adaptation waiting for future emissions targets to take effect

- CDM has a key role but must be expanded, credibility enhanced, and be operationally efficient for its purpose

- Convergence of carbon pricing across the different mechanisms is important as triggers least cost mitigation – some sort of linking, comparable MRV etc., overall accounting structure needed

- Current mechanisms leveraging the private sector have the potential to deliver, however parties have to commit long term
Thank You

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