

Stringency of baseline and additionality and competitive position of different market mechanisms

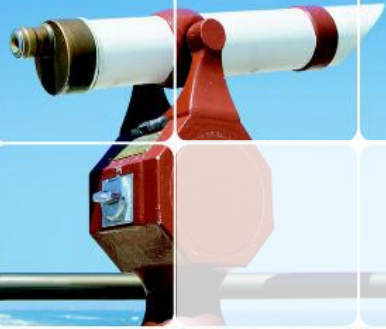
Liechtenstein Side Event:

**New Market Mechanisms - Creating demand and
safeguarding incentives**

Bonn, 17 May 2012

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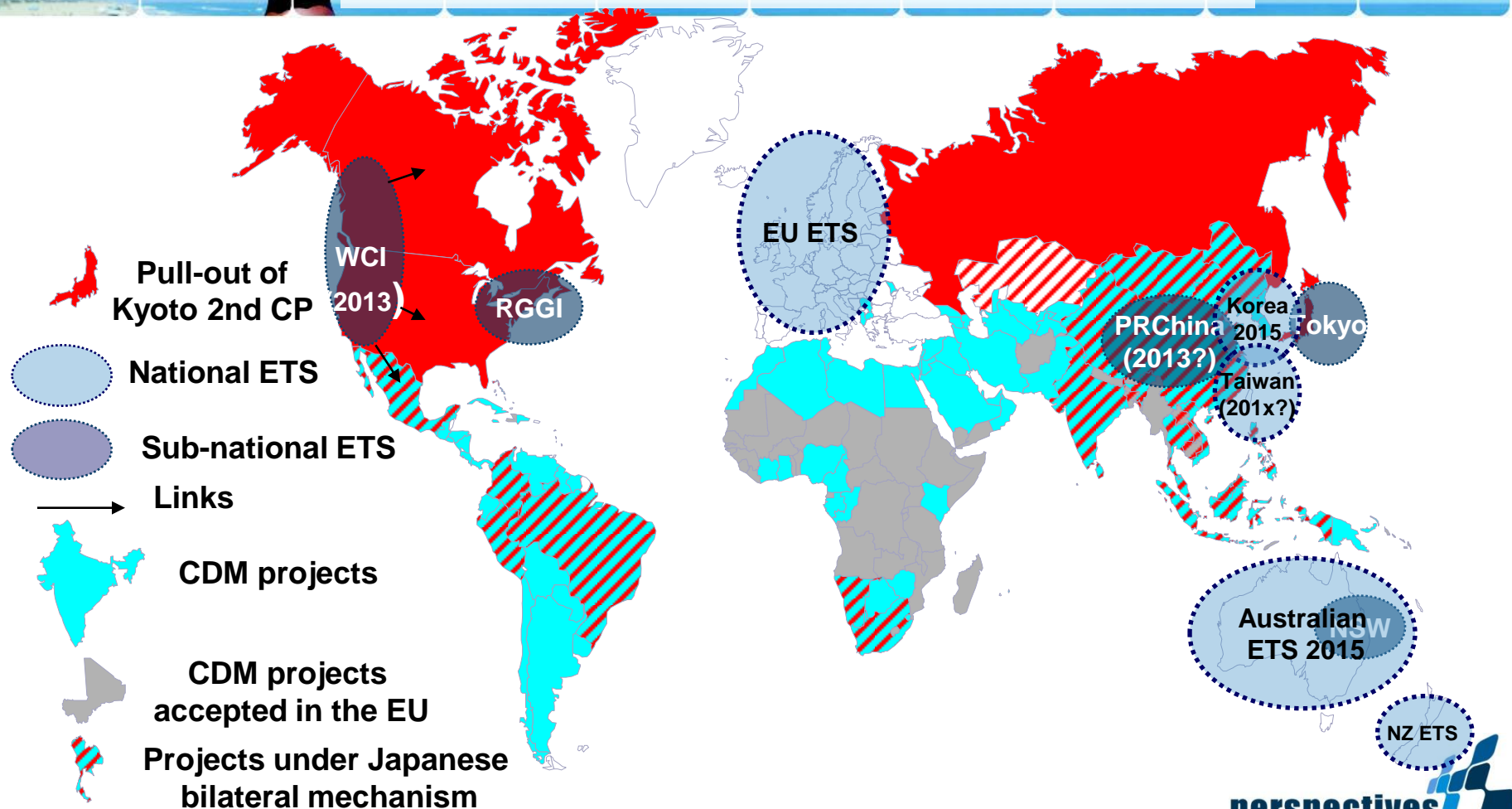
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Overview

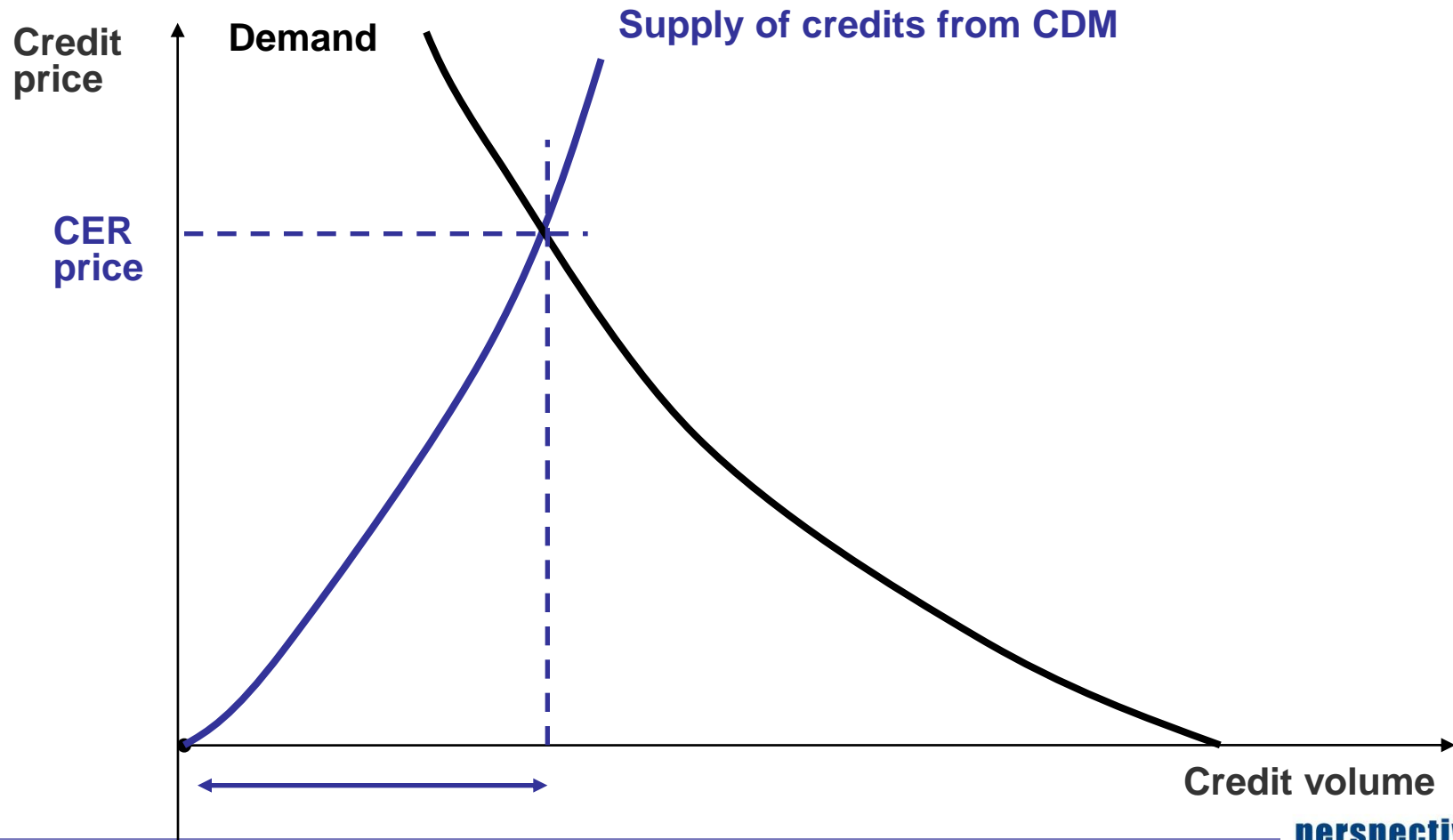
- The **fragmented** carbon market world
- **Competition** among carbon market mechanisms
- How **baseline** and **additionality** determination influences competitiveness of **the mechanisms**
 - New Market Mechanism: Contributing to **global emission reductions**
- **Challenges for regulators**
- **Conclusions**

Fragmented world

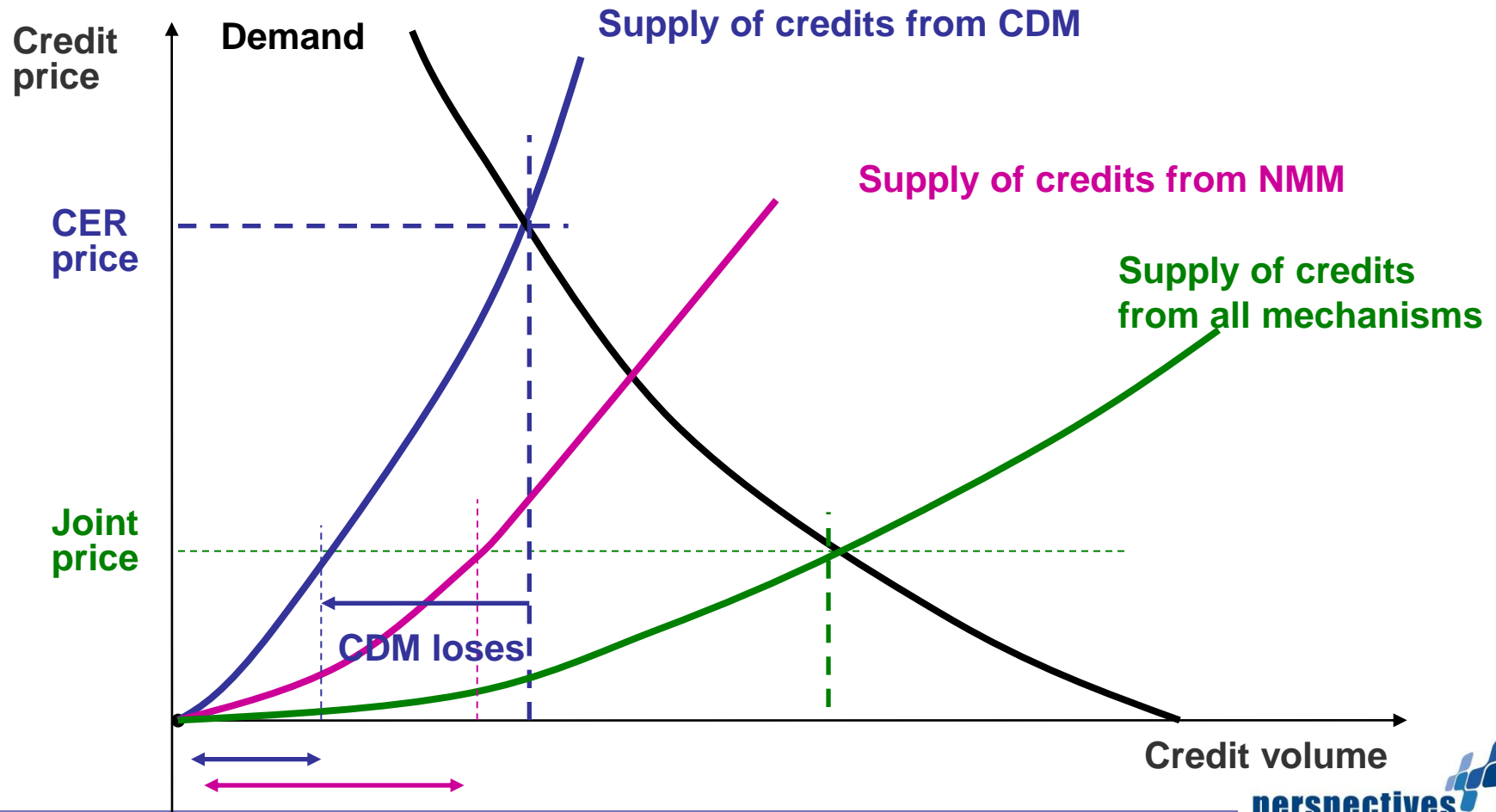




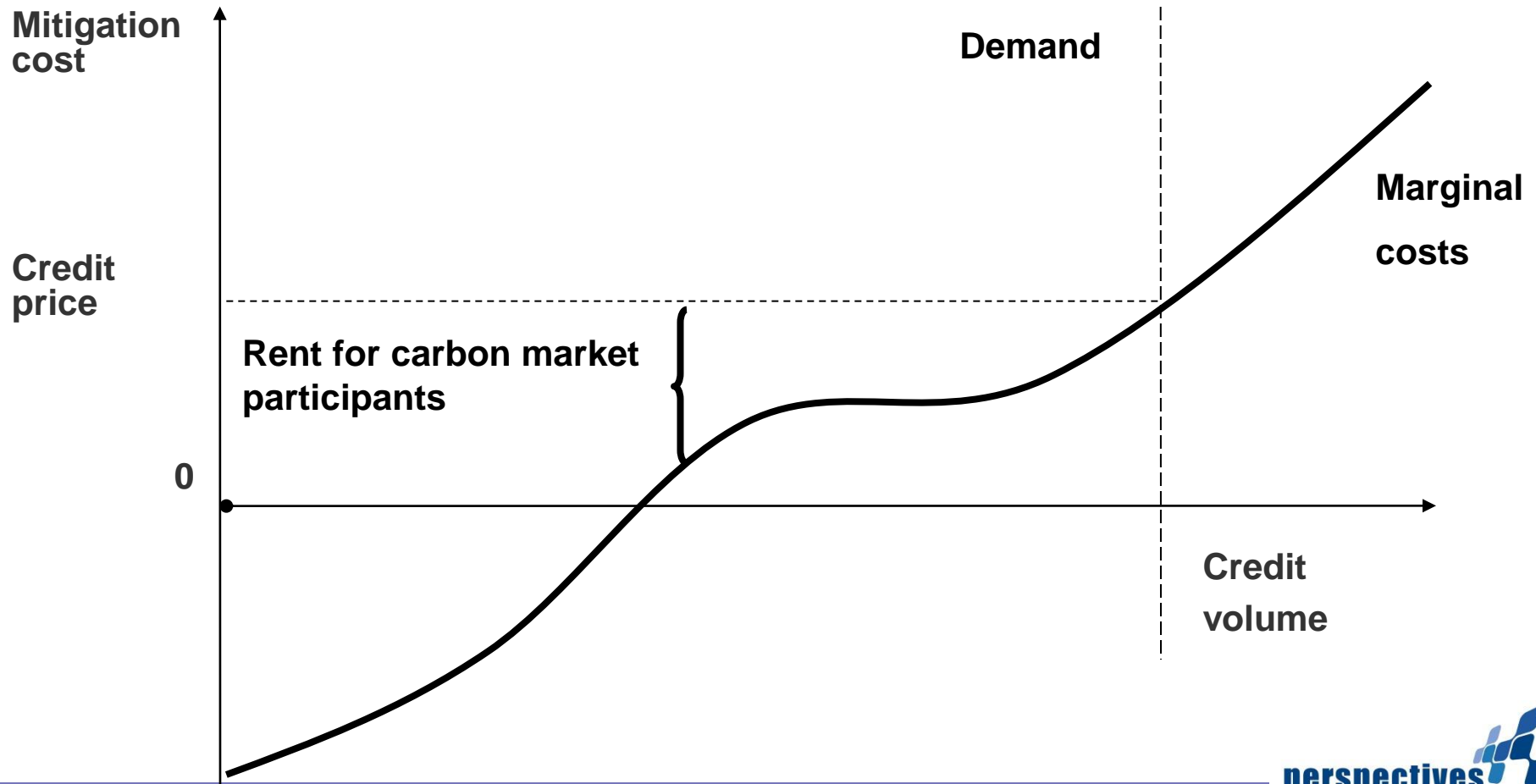
Supply and demand on the CDM market




Supply and demand on multiple carbon markets



How carbon markets incentivize mitigation





Additionality for project-based mechanisms

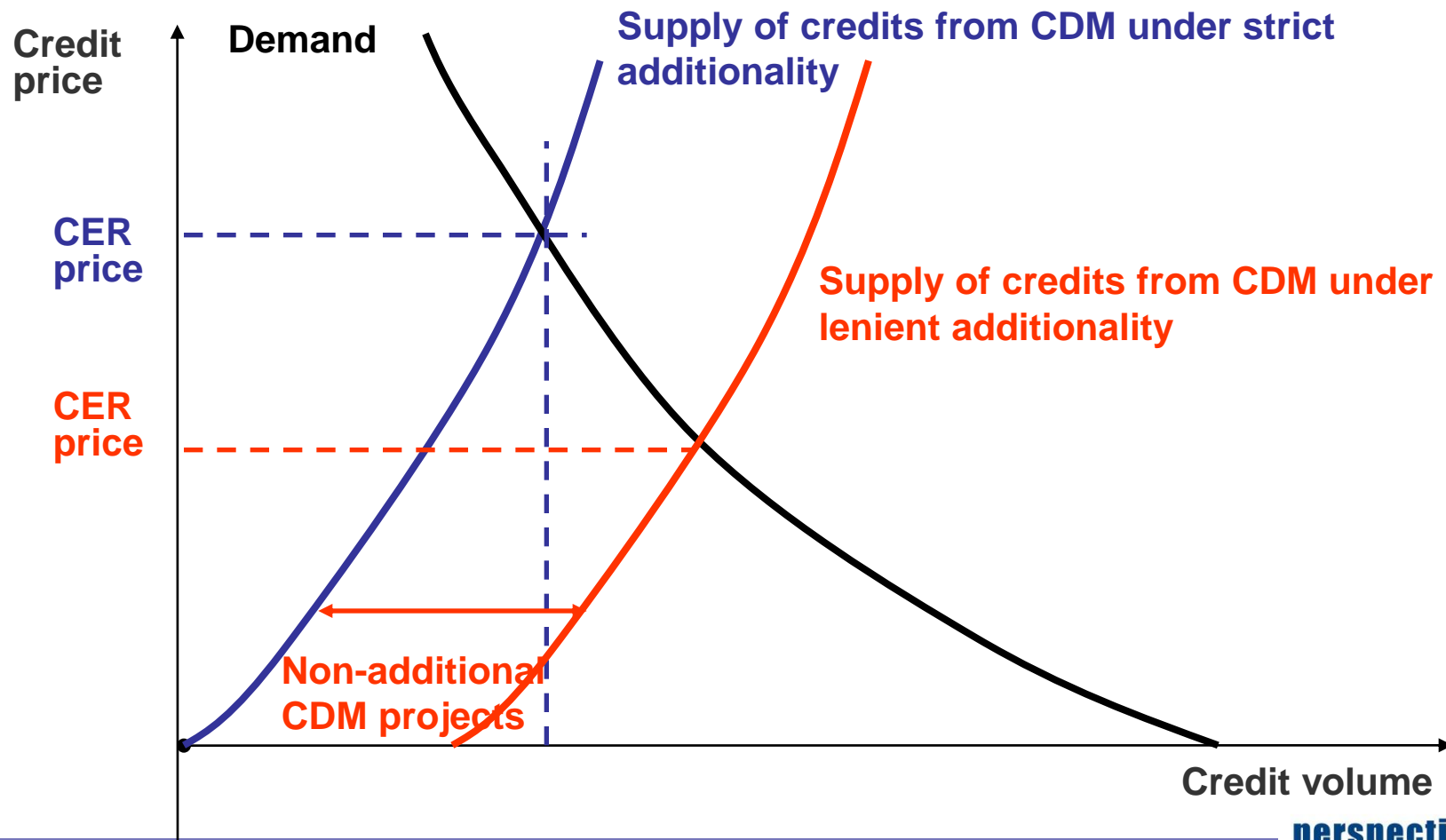
Mitigation
cost

Not additional

Credit
price

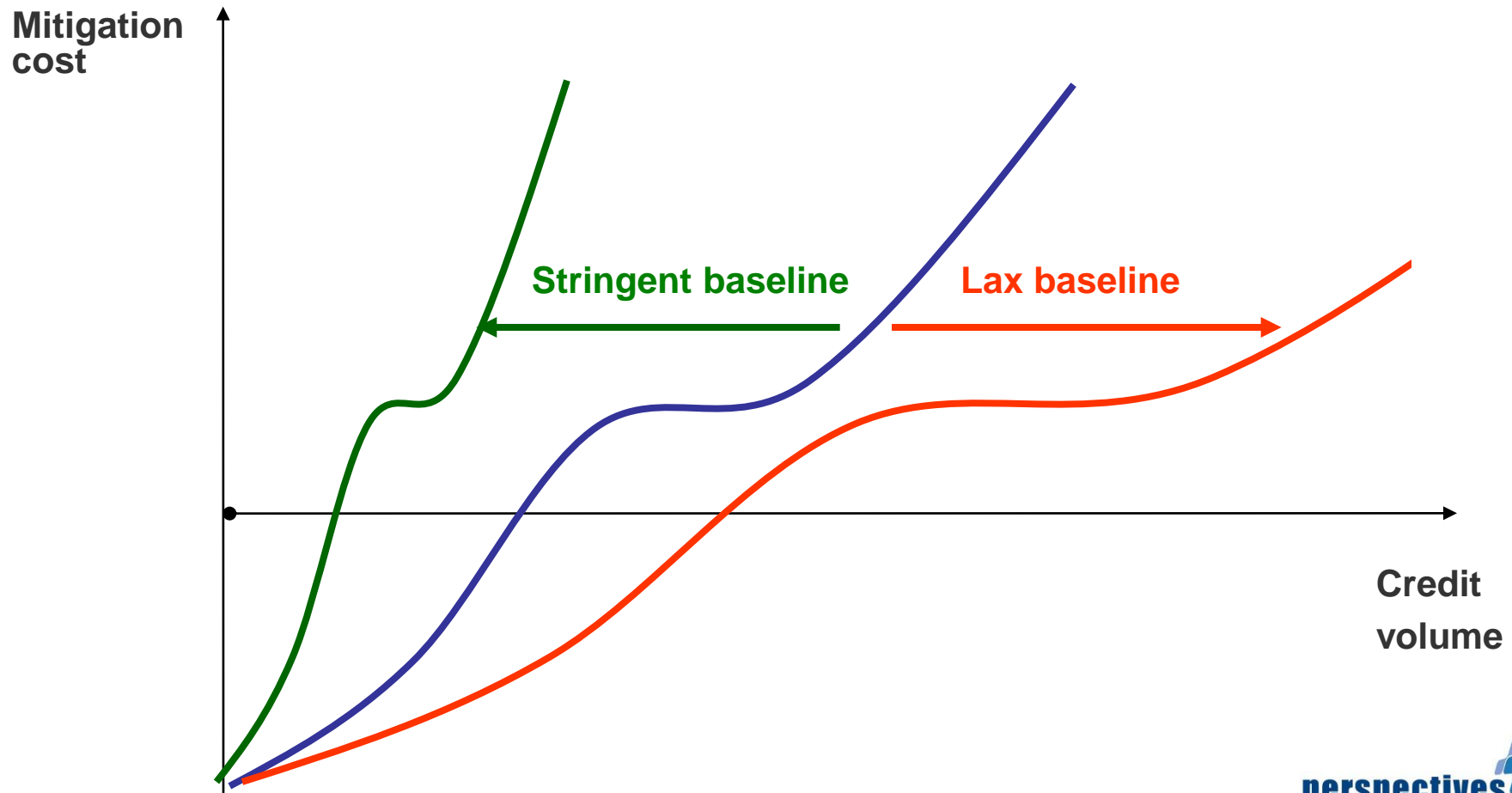
Credit
volume

Additionality and CDM supply

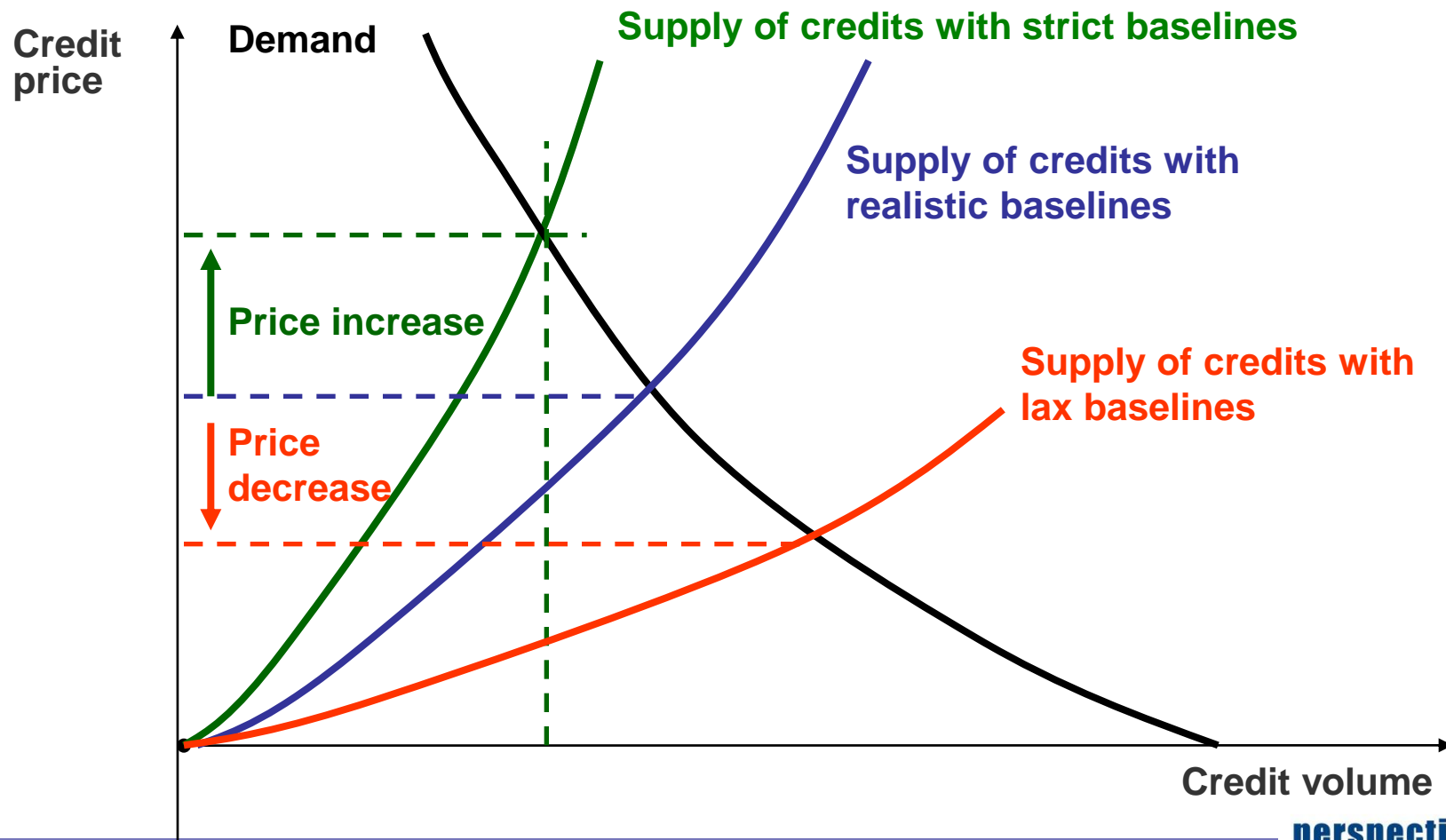




Baselines for market mechanisms



Baseline stringency and credit supply





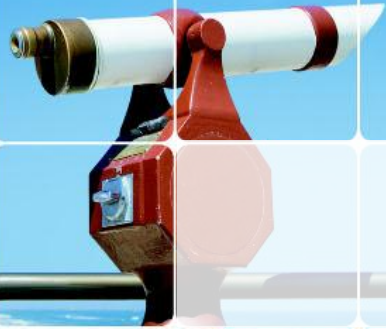
NMM: global reductions

- **Options** for contribution of NMM to global emission reductions
 - Stringent baselines **below business-as-usual**
 - **Discounting** of emission credits
 - **Shortening** of crediting periods
- **Each option has different impacts on the competitiveness of the NMM...**
 - Former two reduce supply **immediately**
 - Latter keeps competitiveness **high** as project developers **care less for future credits**



Challenges for regulators

- Understand **interaction** between the different mechanisms
 - **Joint regulatory body** for all mechanisms
 - Strive for **consistency** in rules
- Understand **competitiveness impacts** of specific rules
 - **Baseline** rules change **shape of supply curve**
 - **Additionality** rules **shift the entire curve**
 - Contribution of NMM to global reduction **reduces competitiveness** compared to 100% offset mechs



Conclusions

- Competitiveness of mechanisms **directly depends** on rules for baseline setting and additionality determination
 - Understand these implications when **negotiating** the NMM
 - Understand the competitiveness implications of **changes in CDM baseline and additionality rules**
 - **Standardization**
 - **Benchmarking**
 - **Automatic** additionality

Thank you!

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Supply and demand on multiple carbon markets

