

# Key Design Elements of New Market Based Mechanisms: An Investor's View

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# Background views

- Market approaches will play a critical role
- It's all about technology development and diffusion
- Approaches will depend on national circumstances
- Carbon market part of market approach

# Principles of carbon markets

- Environmental integrity
- Encourage entrepreneurship
- Provide clear market signal to consumers
- Create new channels for financing
- Good market functioning and regulation

# Existing mechanisms

- Great success, beyond expectation
- Must continue but must be supplemented
- Heavily politicized process
- Issues have emerged, lessons learned
  - Governance issues
  - Institutional capacity
  - Additionality as a concept
  - Transparency

# Assumptions

- New mechanisms will be
  - Under UNFCCC
  - Units will be used for compliance with commitments being negotiated
  - Will go beyond offsetting
  - SD will be defined by Host Country
  - Technology neutral

# What Investors Look For

- Clear incentives for private sector to participate – CDM offers that
- Fungible units coming out of new mechs
- A deep and liquid market
- Environmental credibility
- A forward curve and the ability to hedge
- Units that can be banked
- Some regulatory stability in a pure regulatory market
- Demand across multiple jurisdictions

# Main Elements of Governance

- New Mechanisms to be created “top down”  
OR “bottom up”
- Top down
  - Developed and created by COP
  - Adopted by Parties voluntarily
- Bottom up
  - Created by Parties
  - Approved by “international regulator”
  - Adopted voluntarily by Parties

# Main Elements of Governance

- Host Countries will define which NAMA are
  - Used for domestic purposes
  - Used for international markets
- COP will approve standards
  - To address double counting
  - MRV
  - Additionality
  - Baseline definition



# Main Elements of Governance

- Host Country will define country specific elements eg
  - Type of allocations
    - Grandfathering
    - Benchmarking
    - Auctioning
- Types of mechanisms
  - Ex post: sectoral crediting
  - Ex ante: sectoral trading

# Main Elements of Governance

- COP will define criteria for participation in mechanisms e.g. “ex post” OR “ex ante”
  - JI T1/T2
  - Participation in ET

# Main Elements of Governance

- International Regulator will ensure coherence and environmental integrity
- International regulator will approve “programs” according to agreed standards
- International regulator will not regulate individual projects and credit issuances

# Summary

- Elements
  - Top down NAMAs
  - Bottom up NAMAs
  - SDMSB
  - Carbon Reserve Bank
- Outcome – a GHG market that
  - Flexible
  - Entrepreneurial
  - Addresses local conditions
  - Well understood regulatory behavior
  - Ensure environmental integrity