

Can New Market Mechanisms Mobilize Emission Reductions from the Private Sector?

**Side Event: Market Mechanisms in a Post-Durban
International Climate Regime
(Harvard University and ENEL Foundation)**

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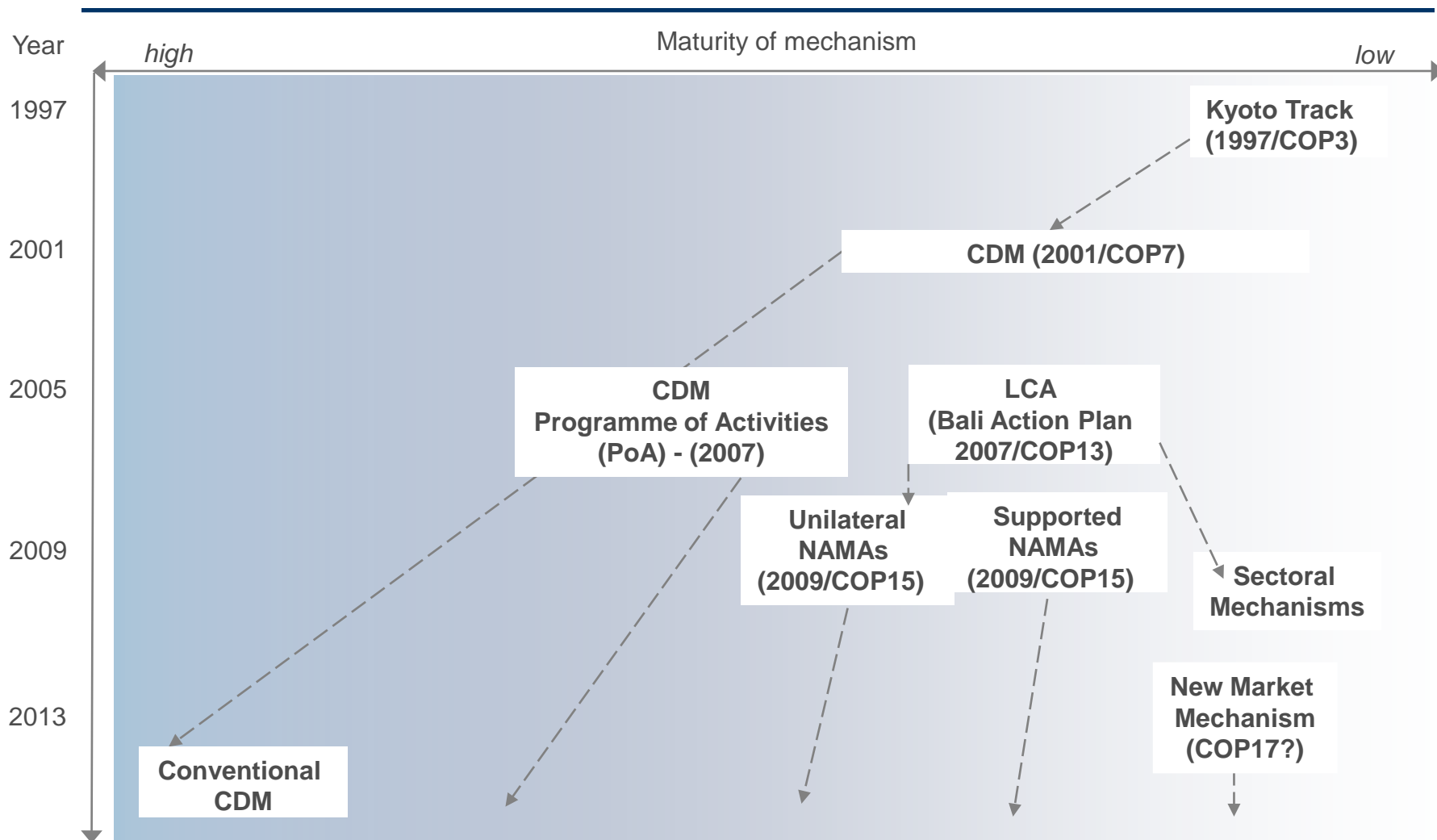


Topics

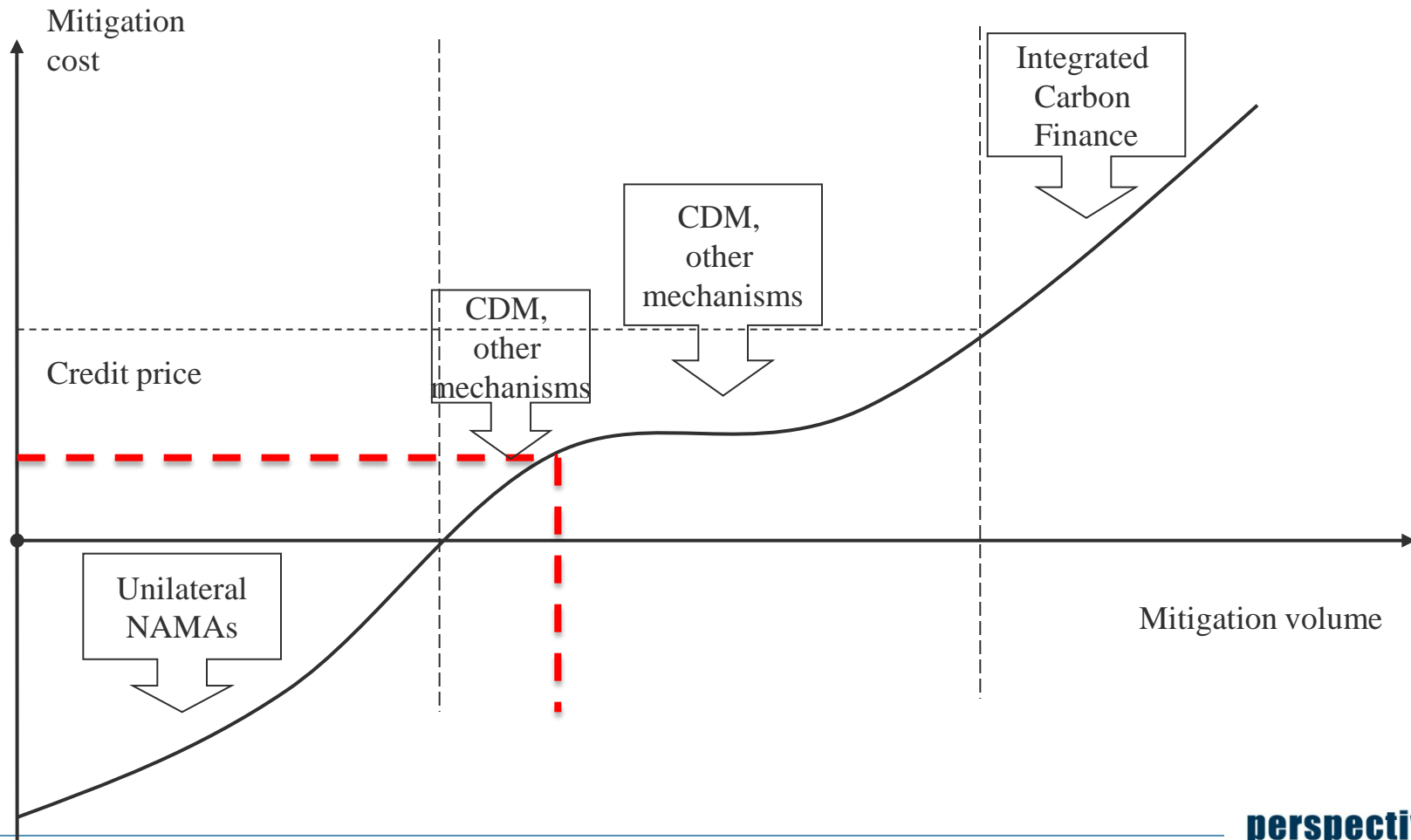
- **Brief recap: evolution of market mechanisms in the UNFCCC context**
- **NMMs: A haze of conflicting aims?**
- **How to incentivize private sector participation?**

The evolution of NMMs

Climate finance incentives for low carbon development



Integrated carbon finance



Discussed types of New Market Mechanisms

NMM type	Characteristics	Supported by
Project-based	Similar to CDM and JI	China, Japan ¹
Sectoral crediting	Credits are awarded if emissions from a sector are kept below a pre-defined level	AOSIS, EU, Japan, Norway, Papua New Guinea
Sectoral trading	Allowances are issued ex ante based on a sectoral target, with penalty for missing target	AOSIS, EU, Japan, Norway, Papua New Guinea
NAMA²/policy crediting	Crediting of mitigation effects of policies and actions that go beyond projects	South Korea, Switzerland
Net avoided emissions	Credits for not exploiting fossil fuel deposits	Ecuador

-> No detailed decision by COP yet, the following analysis mainly focuses on sectoral approaches

Typical mitigation policies

Sector	Policy
Energy production	Feed-in tariff, renewable portfolio standard, green credit lines, guarantees
Industrial energy use	Carbon tax
Transportation	Fuel efficiency standards, road fees, carbon taxes
Buildings	Building codes, green credit lines, energy efficiency certificates
Waste	Regulations
Industrial processes	Performance standards for electric motors etc.



-> **Challenge: Usually policies are not related to carbon price**

NMMs: A haze of conflicting aims?

Aims of policymakers re NMMs

- **Upscaling** mitigation beyond project-based mechanisms
- Reducing transaction costs through **standardization**
- Resolving the **additionality** challenge
- Contributing to **global emission reductions**
- Allowing design of NMM according to **national preferences**
 - Framework for various approaches

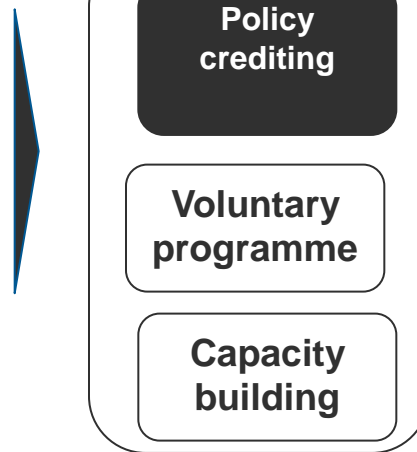
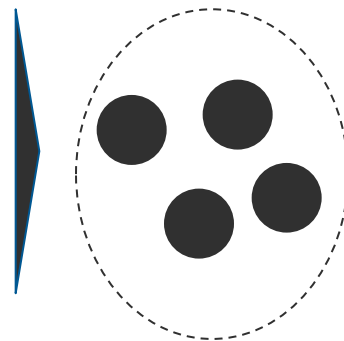
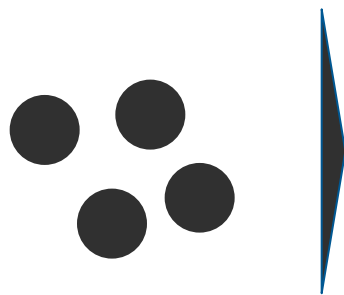
Upscaling

Single CDM
projects

CDM Programme
of Activities

Nationally Appropriate
Mitigation Action - NAMA

Sectoral
Mechanism



Carbon market
(CERs)



Carbon market
(CERs)

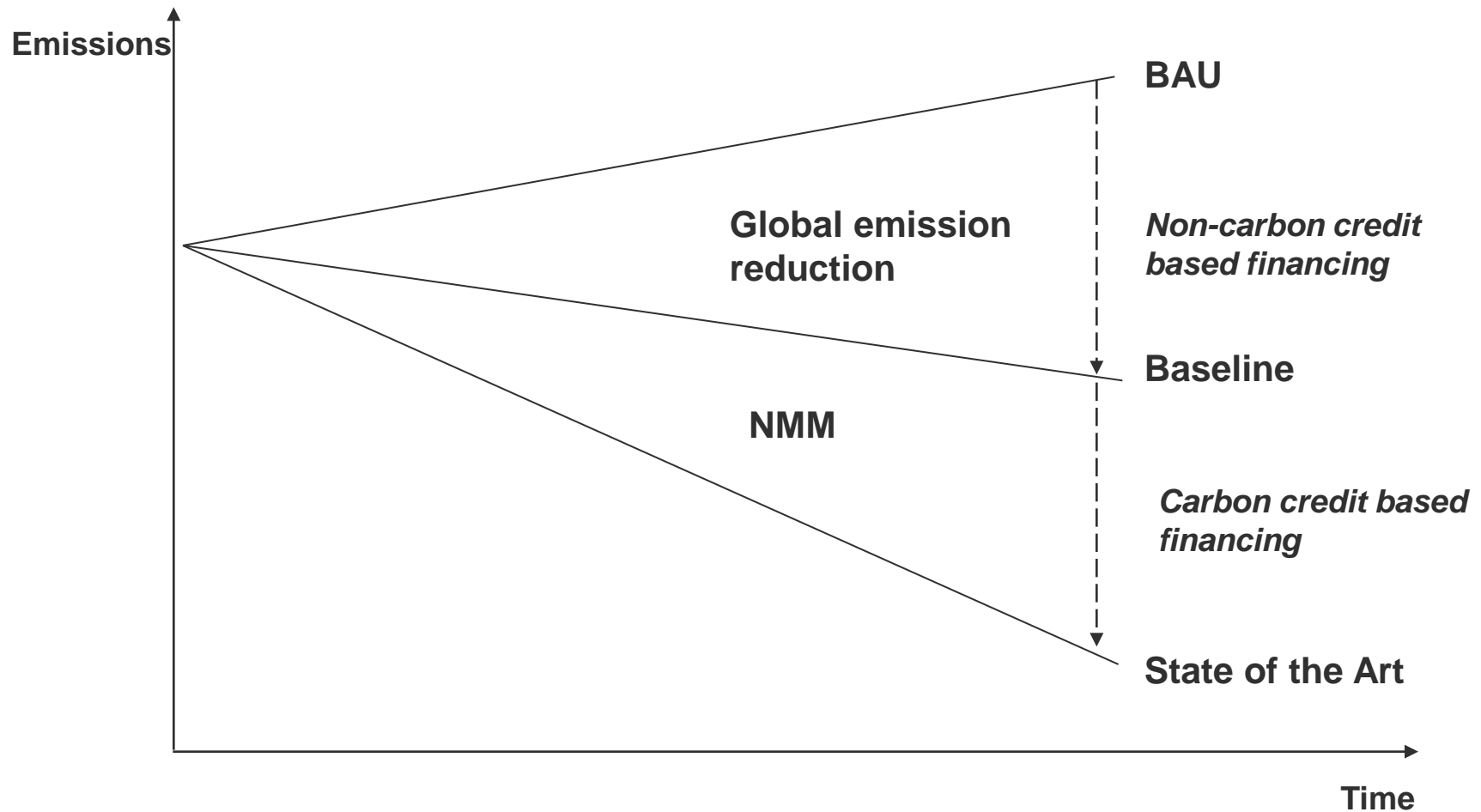
Potential mix of funds
(domestic, donor and
carbon financing)

Regional/global
carbon market?

Scale of mitigation financing

Source
of
Funds:

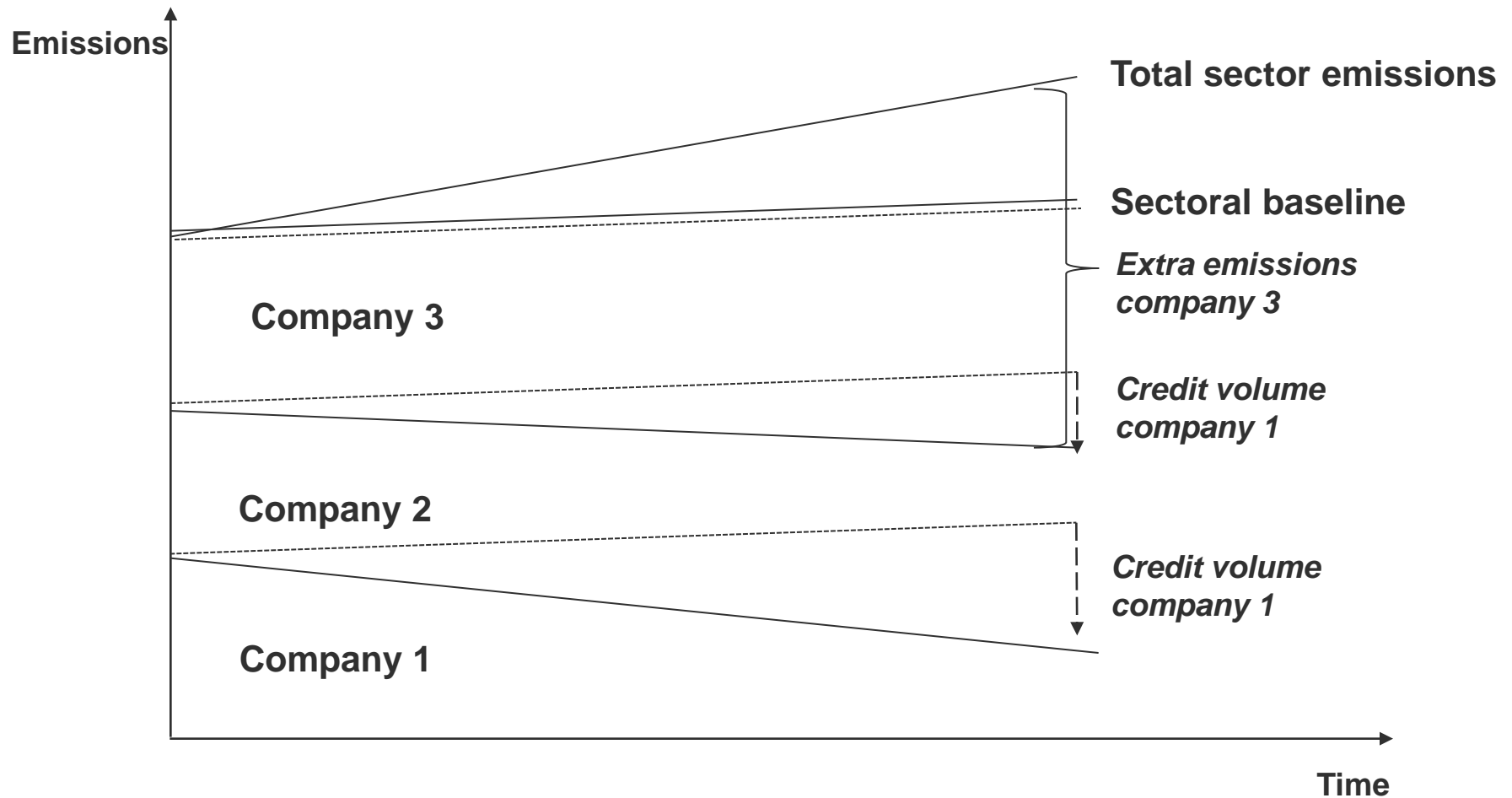
Contribution to global reductions



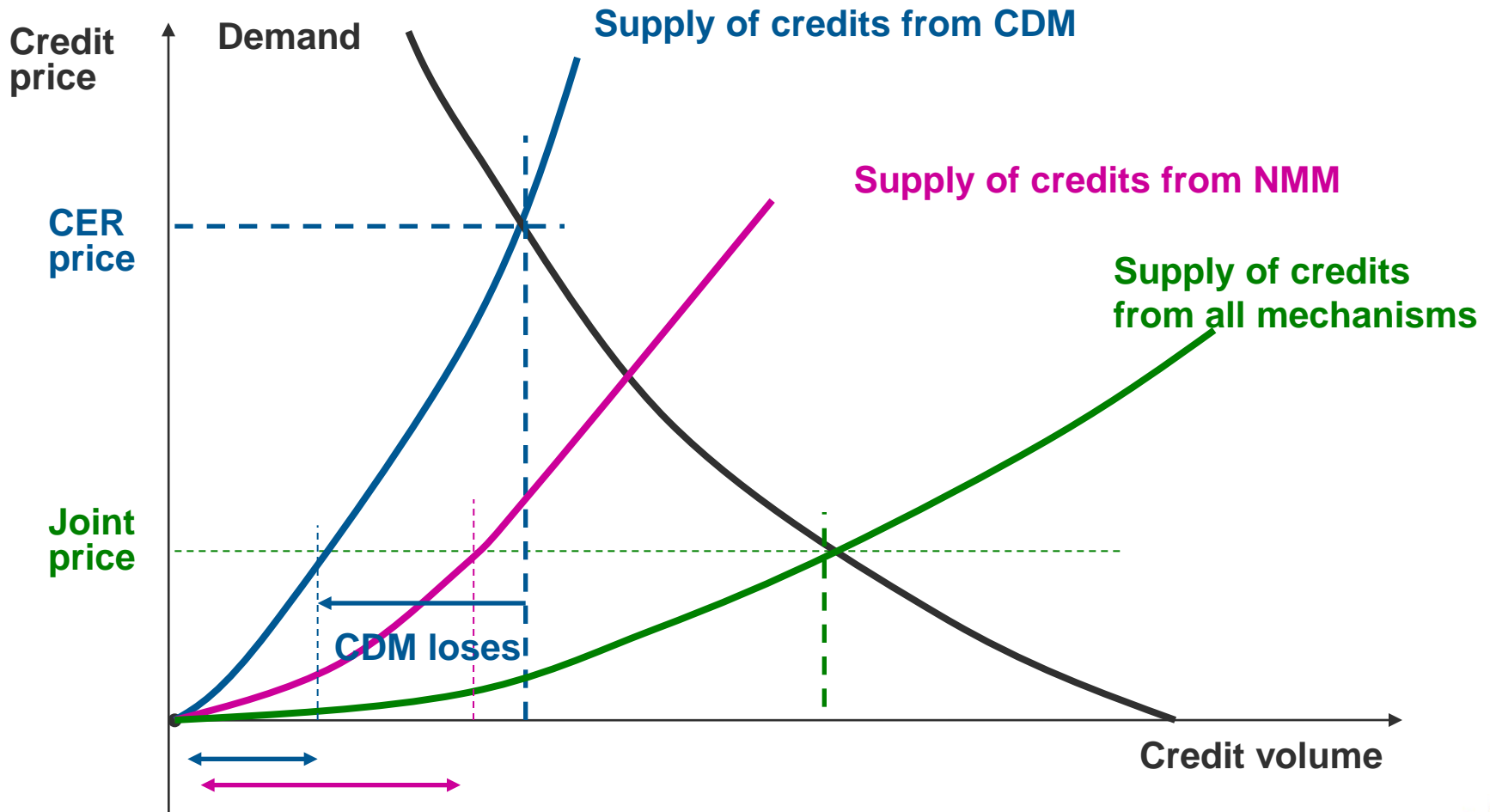
Challenges for NMMs

- **Free riding:** dilution of mitigation incentives
- **Elusive counterfactual:** setting baselines and determining additionality
 - Uncertainties in BAU setting
 - Credibility of baseline
 - Additionality coverage through “false positive/negative” challenging
- **Cut-throat competition** between mechanisms on the national and international level

Free riding



Challenges for NMMs



How to incentivize private sector participation?

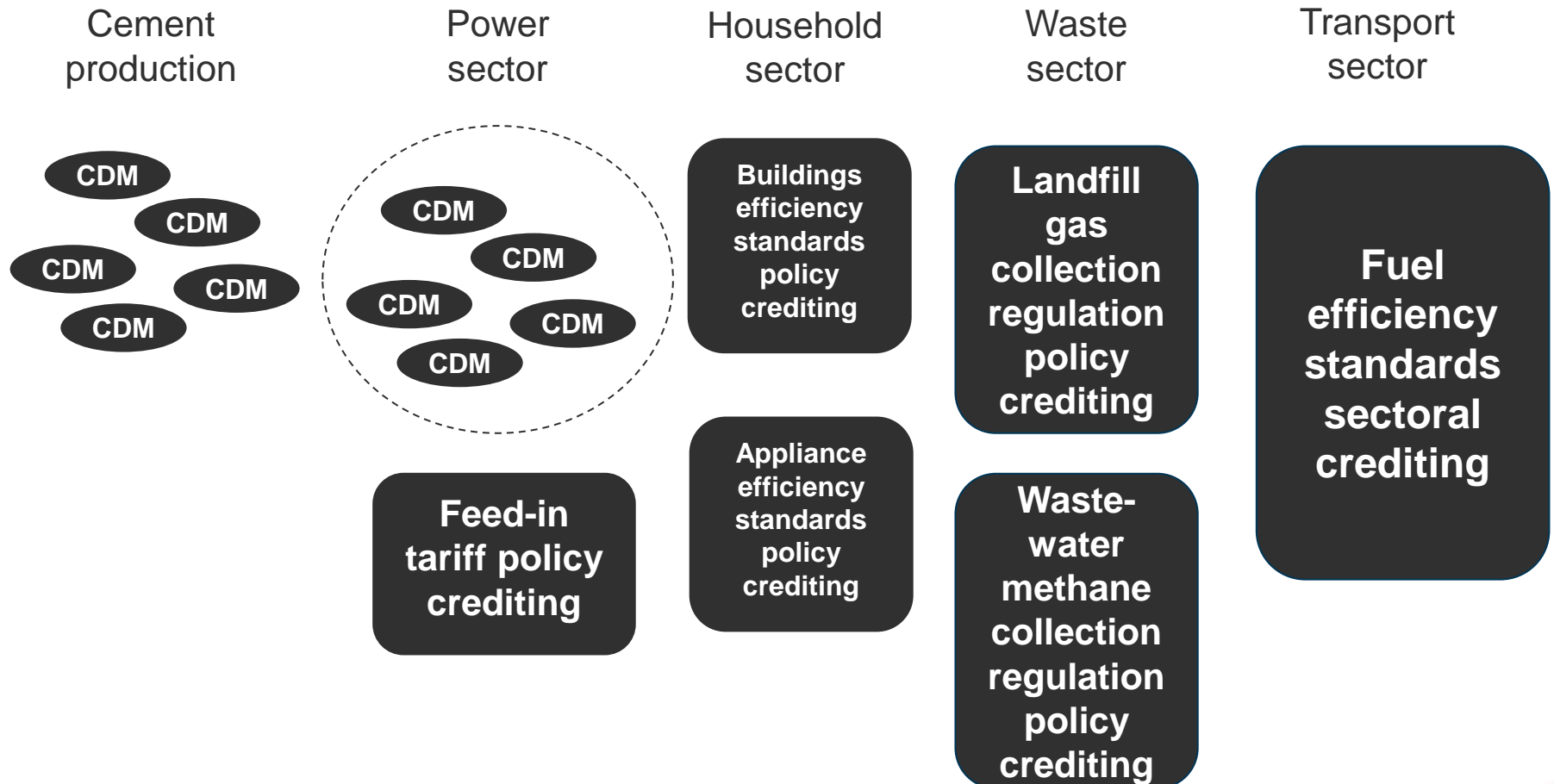
How to safeguard incentives for private sector mitigation?

- **Binding commitments** for emitters
 - Mandatory emission trading with sufficient penalties
 - Alternative: Intensity standard (tradable)
- **Government guarantees** for private mitigation
 - Regulator covers difference between baseline and sector emissions (financed by e.g. a low-level carbon tax)
- **Deposit-refund** systems
 - Emitters are required to provide deposits for emissions
 - Refund if emissions remain below the benchmark
 - Interest on deposit paid to emitters

Short-term recommendations for stakeholders

- How to **integrate** NMMs in existing international mitigation mechs?
 - NMMs appropriate for sectors with **distributed** emission sources
 - Different sectors might require different mechanisms
 - Coexistence might be tested through **pilots**
 - Understand the **robustness of baseline setting** on different levels
 - **Discount CERs** in order to achieve global emission reductions
- Precondition for coexistence: Strong national / international oversight and sufficient demand!

Coexistence of mechanisms



Thanks for your attention!

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