

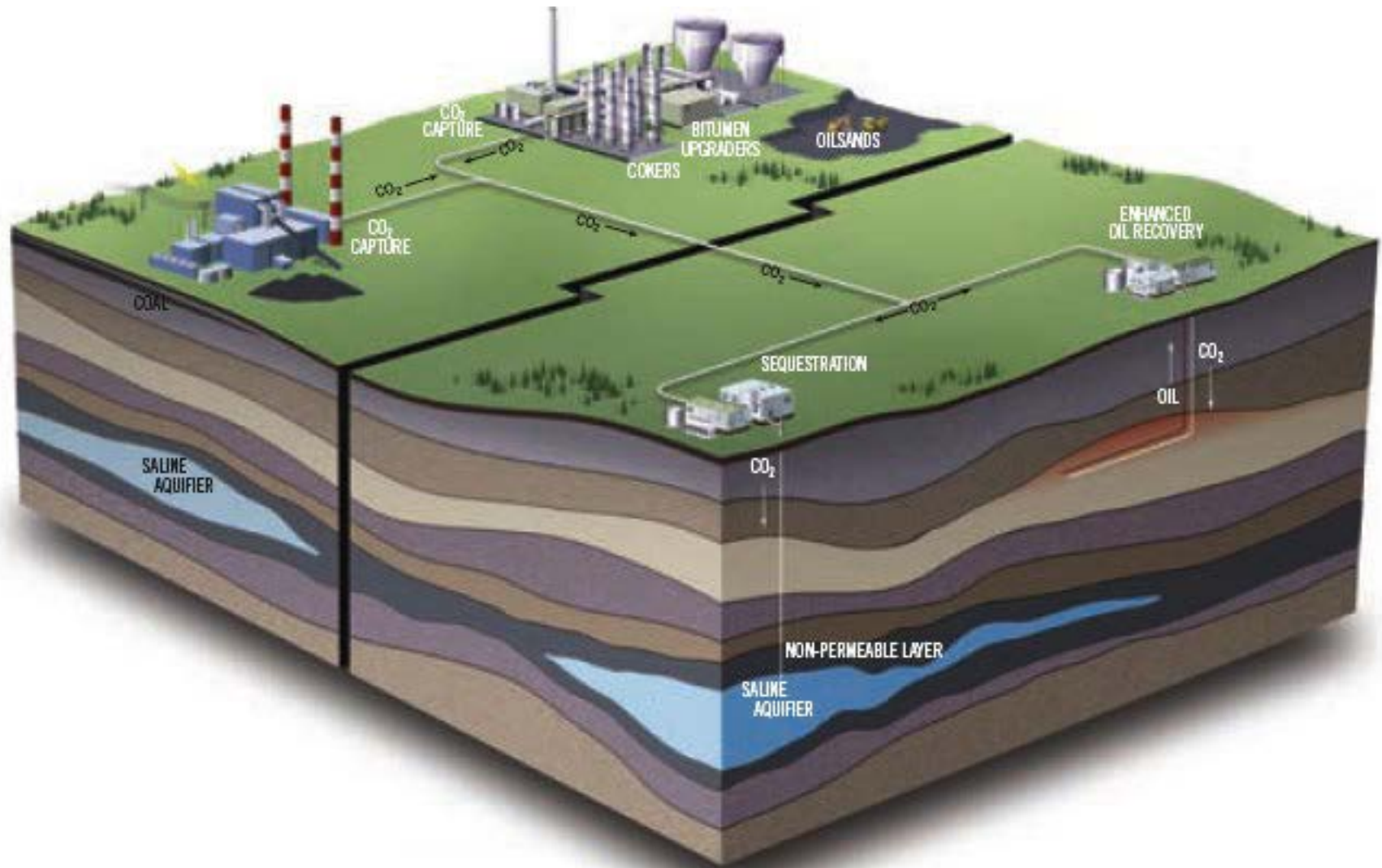


Thoughts on a New Market Mechanism

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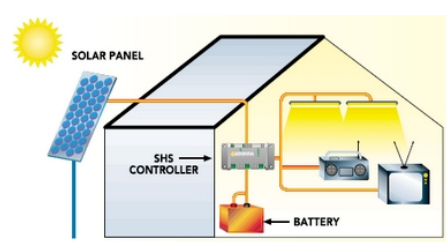
A question of scale



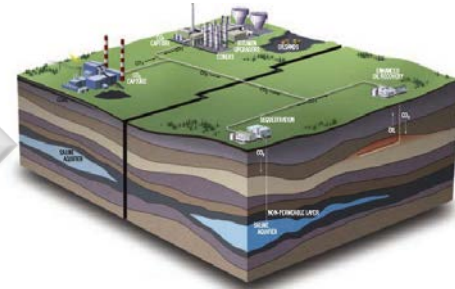
A major transition is required from the current paradigm



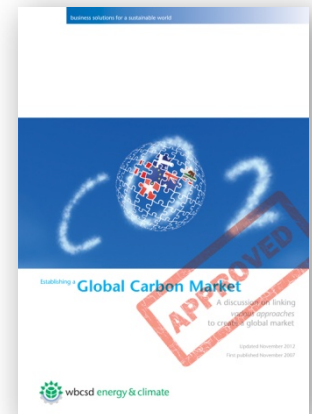
From micro-funding / financing to very large scale project financing



From small scale local projects to large scale regional change

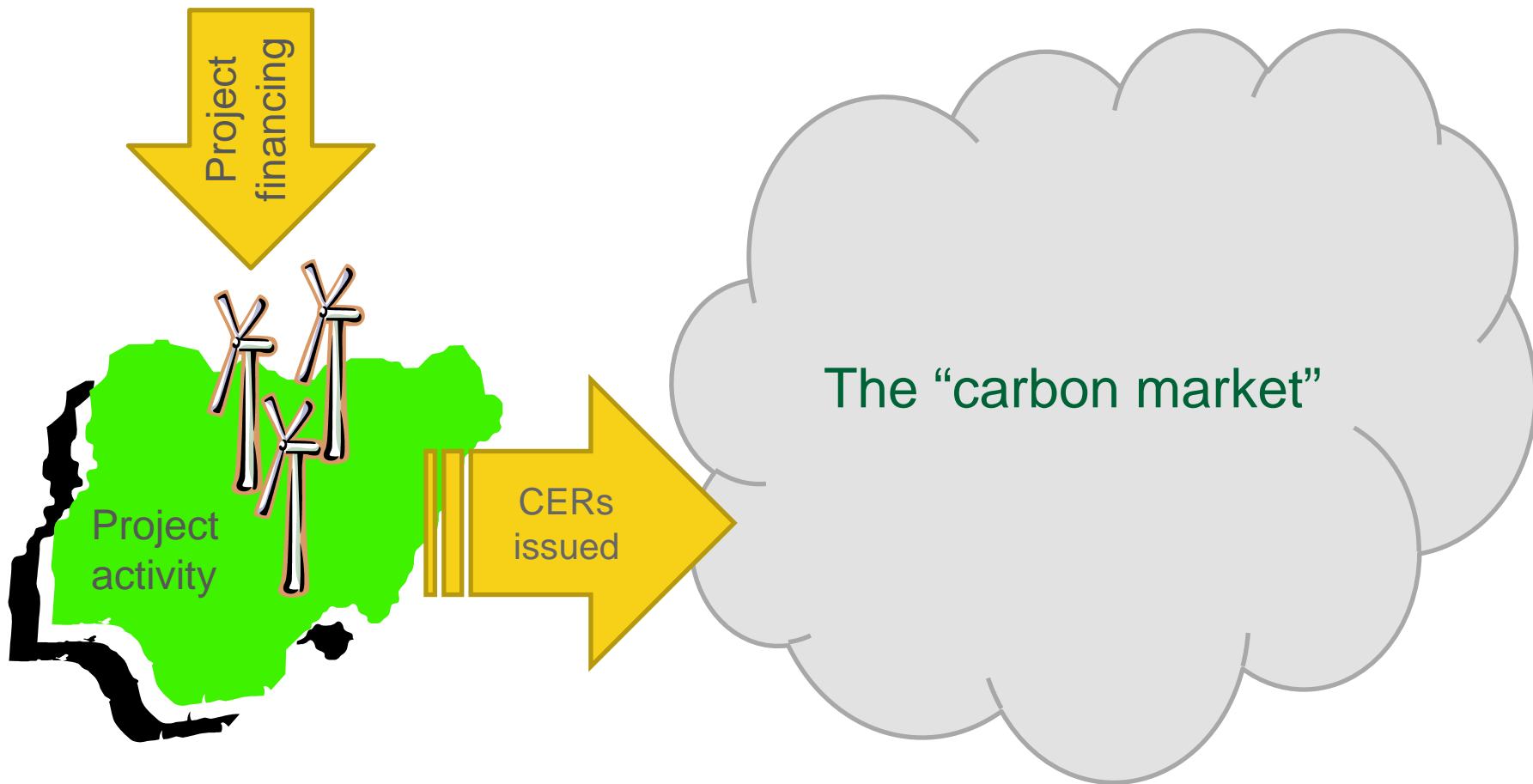


From billion dollar public funding to trillion dollar carbon market financing



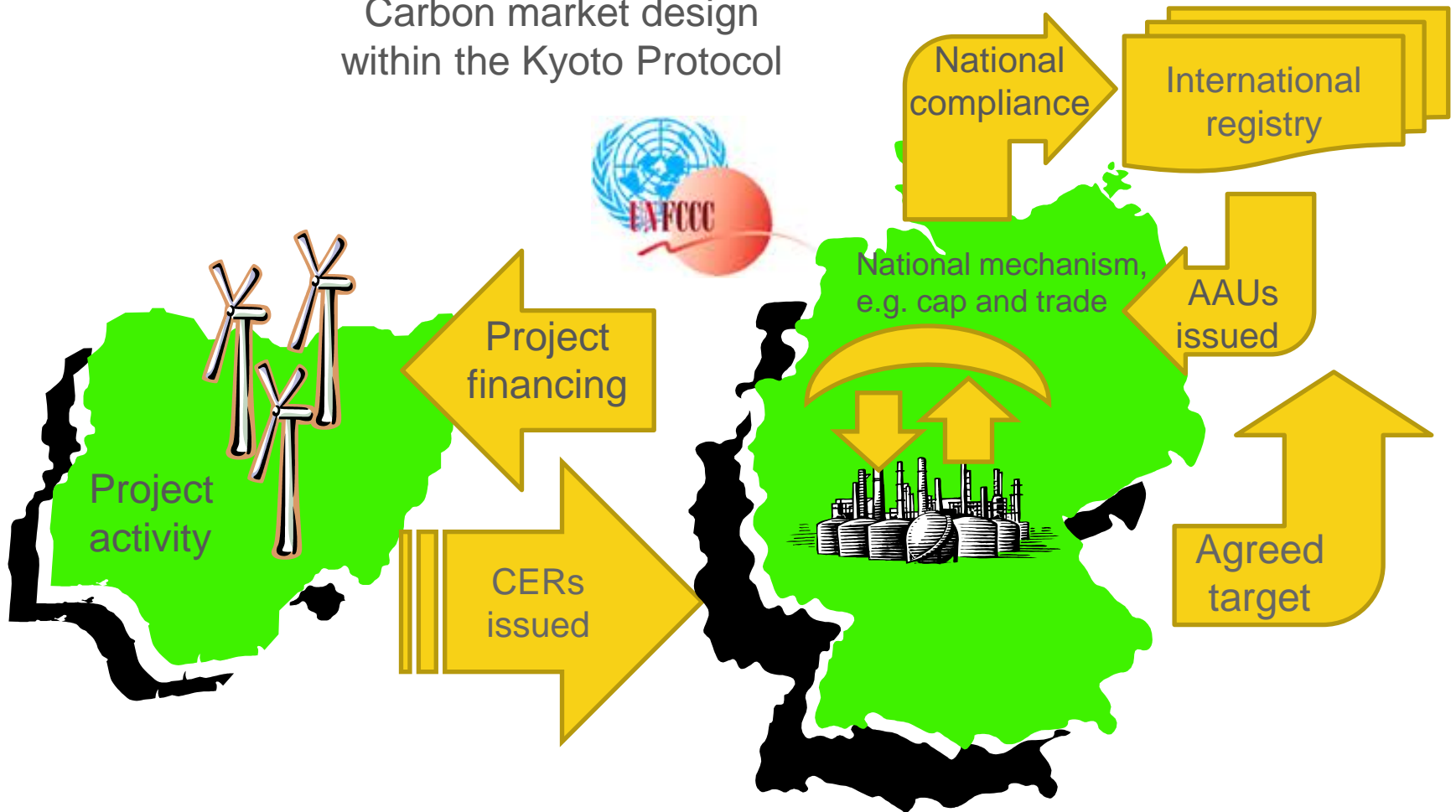
An existing “market mechanism”

The conventional view of the CDM



The full market mechanism in operation

Carbon market design
within the Kyoto Protocol



A carbon market is a
key enabler for change

New technology mechanisms evolve (e.g. for CCS)

China adopts ETS approach

CDM evolves to includes sectors

Stages develop
on various
s and
ches

Maximum scale at
lowest cost to society

framework

Danish-L

UK-ETS

US States or Federal carbon pricing

Global shipping carbon price



The “glue” that makes the current system work is the Assigned Amount Unit (AAU)

The AAU;

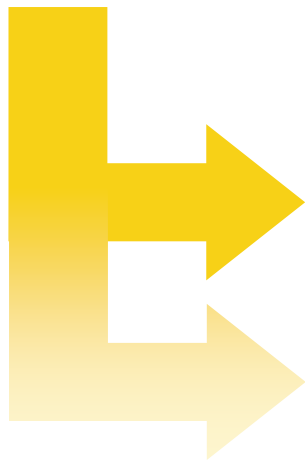
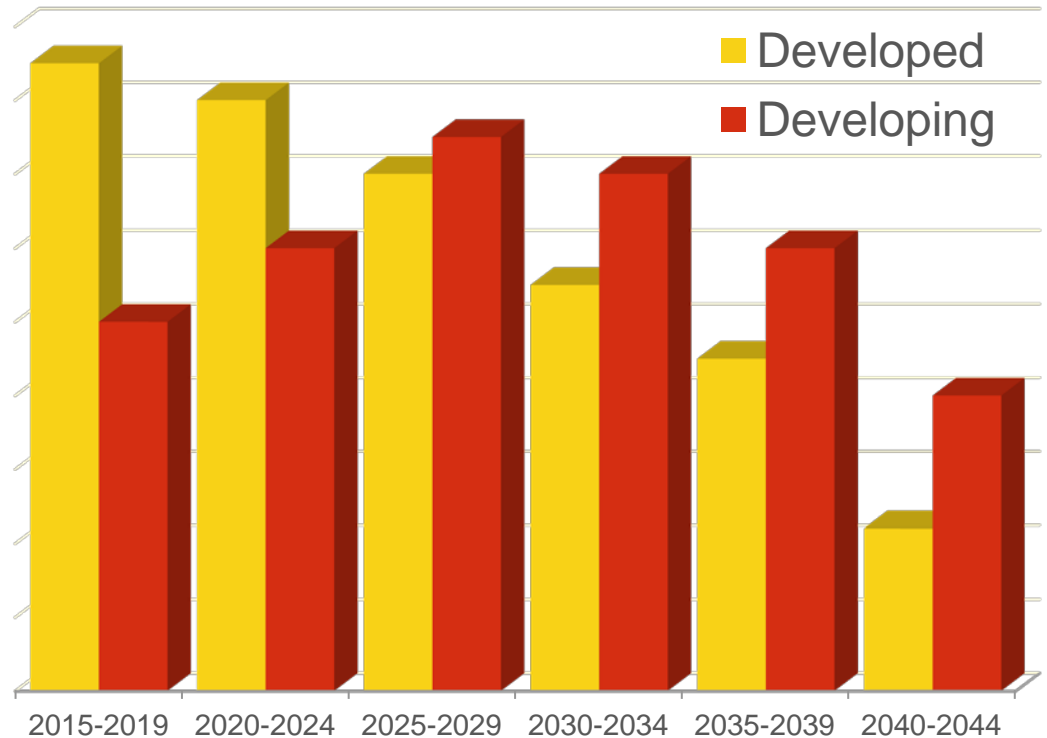
- Establishes compatible supply / demand across borders;
- Ensures legitimacy and environmental integrity;
- Binds systems together with a common MRV protocol;
- Leads to the management of emissions on an absolute basis.

Linkage is simplest between compatible systems with absolute targets. Otherwise complex arrangements such as gateways may need to be developed.

National emissions management

Emissions management against an absolute target is key to linking.

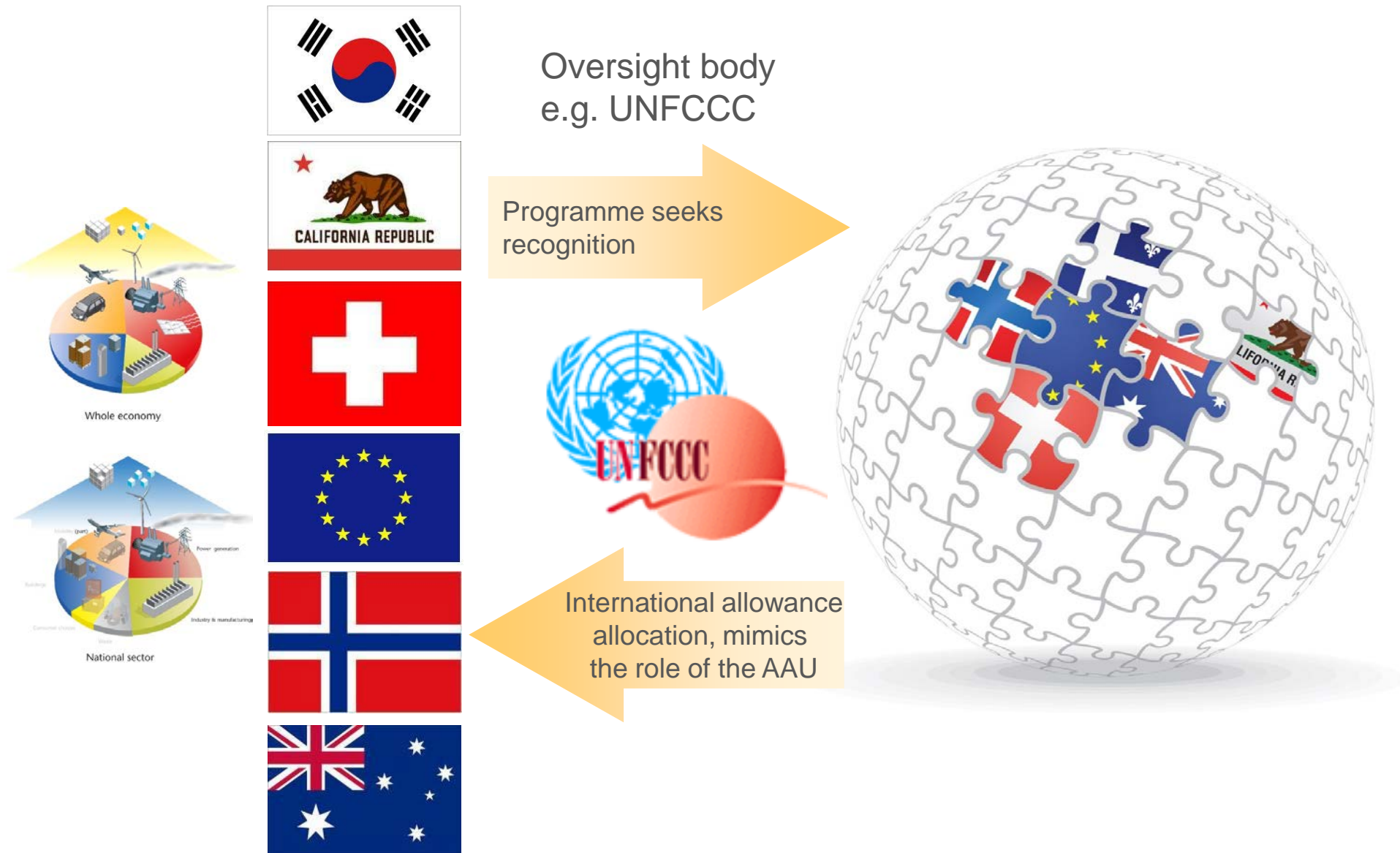
But that can mean a managed decrease or a managed increase.



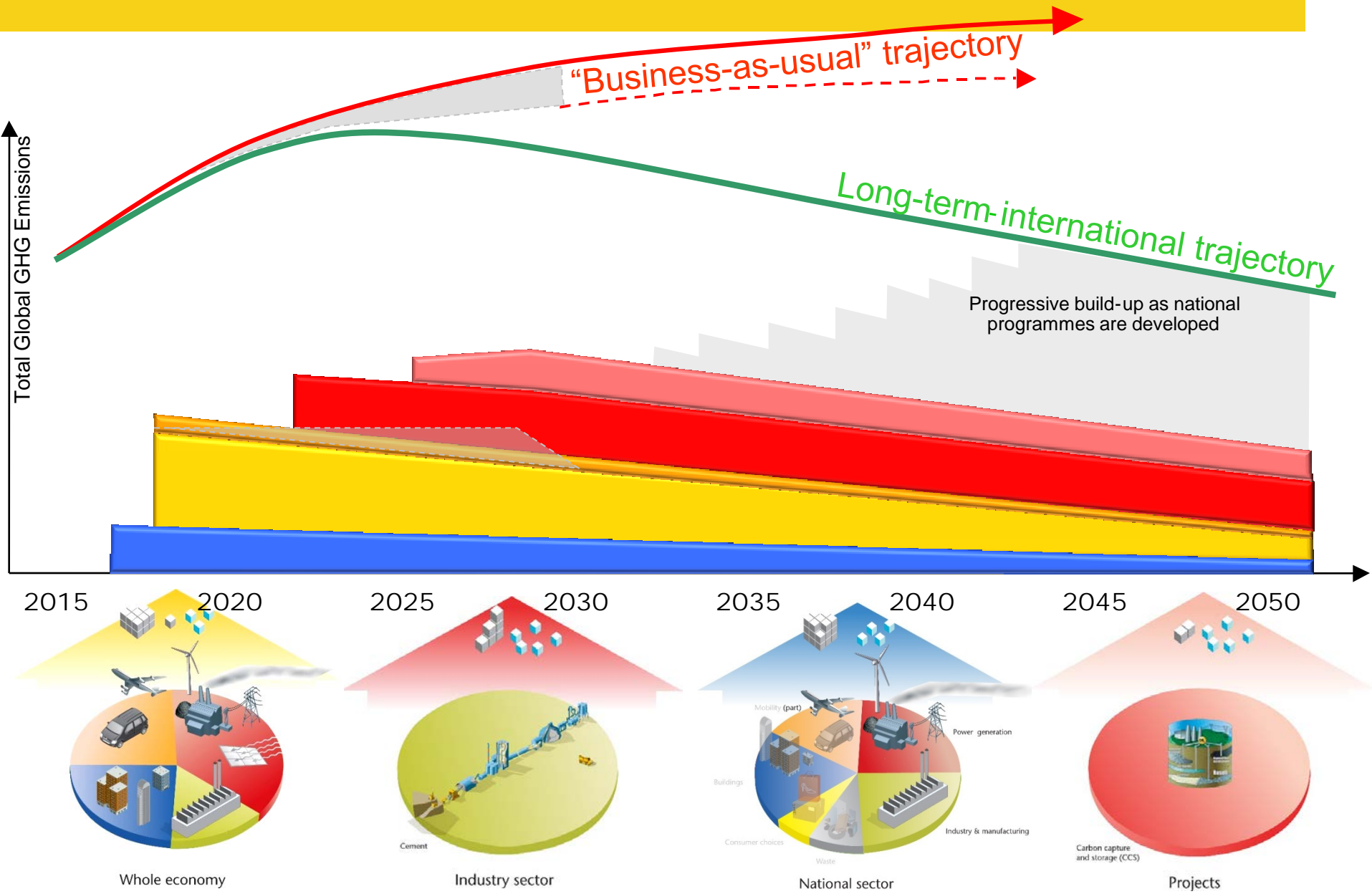
Can easily be cascaded into the economy via “cap-and-trade”

But other policy instruments can be used within the economy provided the government is prepared to manage the risk.

Core to a New Market Mechanism would be an instrument which mimics the role of the AAU



The market builds up over time



We need a more holistic view which seeks to create a functioning carbon market.

