

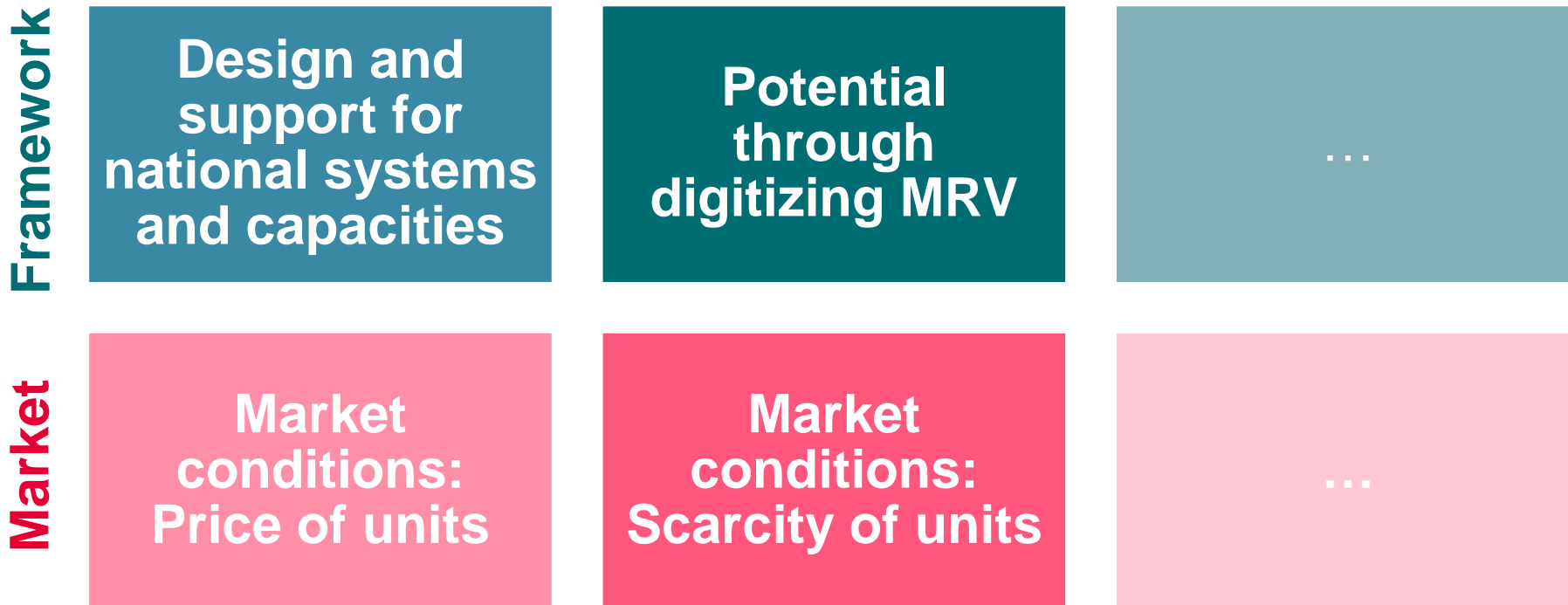
25. June 2019 | Bonn

INCENTIVES FOR PARTICIPATION OF PRIVATE SECTOR IN ARTICLE 6.4 MECHANISM

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Article 6.4: incentivizing private sector participation – medium term

➤ Elements incentivizing participation of private sector

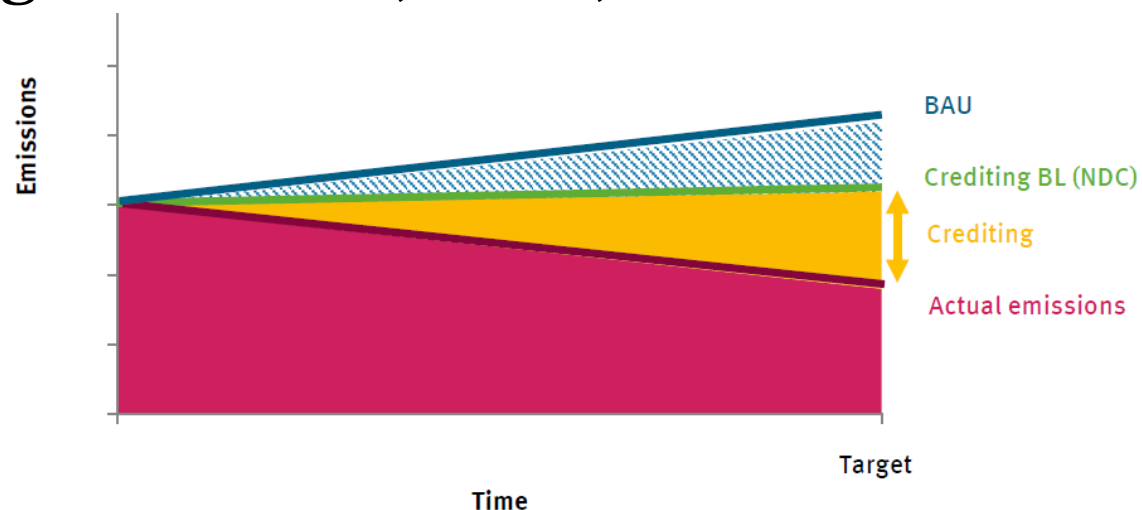


- Focus: Crediting mechanism, Article 6.4 related elements, investors and operators

Article 6.4: Incentivizing private sector

➤ Design and support for national systems and capacities

- Host country “navigating tool”: NIR, NDC, LT-LEDS *including* planned Article 6.4 use
- Authorizing body
- Domestic rules for carbon markets, priorities (sectors, technologies, ...)
- Transparent and sure revenue stream for private actor



Source figure: https://www.dehst.de/SharedDocs/downloads/EN/project-mechanisms/Discussion-Paper_Environmental_integrity.pdf?__blob=publicationFile&v=2

Article 6.4: Incentivizing private sector

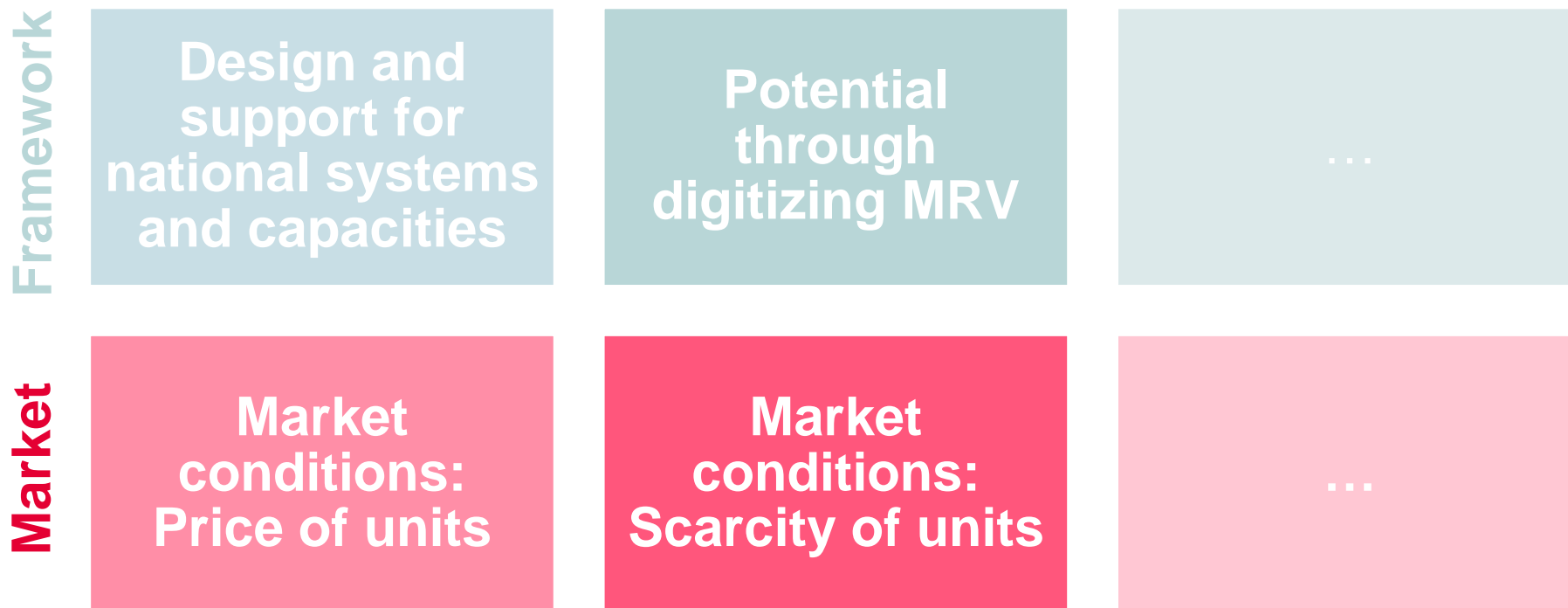
➤ Digitizing Measuring, Reporting and Verification

1. Data collection: Using sensors, mobile phones, IoT, ...
2. Impact quantification and reporting: “smart contracts”
3. Verification: real-time, automated checks
4. Issuance of units to a registry: automated issuance in a trusted system, tokenization, access to buyers

Source: Climate Ledger Initiative (2018) <https://climateledger.org/en/Focus/Navigating-report.38.html>

Article 6.4: incentivizing private sector participation – medium term

➤ Elements incentivizing participation of private sector



- Focus: Crediting mechanism, Article 6.4 related elements – work in progress

Article 6.4: Incentivizing private sector

➤ Market conditions 1: Price of units

- Require unit revenues to significantly support cash-flow and trigger new business

Table: Impact of CER revenues on the profitability of different project types

Type	Source	Projects with available IRR information	Average IRR without CER revenues	Average IRR with CER revenues	Average IRR difference
Hydro	UNEP-DTU	1,753	7.7%	11.0%	3.3%
	IGES	1,635	8.0%	11.6%	3.6%
Landfill gas	UNEP-DTU	183	2.5%	18.0%	15.6%
	IGES	165	2.8%	16.6%	13.8%
Methane avoidance	UNEP-DTU	203	3.8%	21.1%	17.3%
	IGES	204	3.9%	20.8%	16.9%
Solar	UNEP-DTU	154	6.5%	7.9%	1.4%
	IGES	122	5.8%	7.0%	1.2%
Wind	UNEP-DTU	2,162	7.1%	9.7%	2.6%
	IGES	1,804	6.6%	9.4%	2.8%

Source: Cames et al. 2016 (https://ec.europa.eu/clima/sites/clima/files/ets/docs/clean_dev_mechanism_en.pdf)

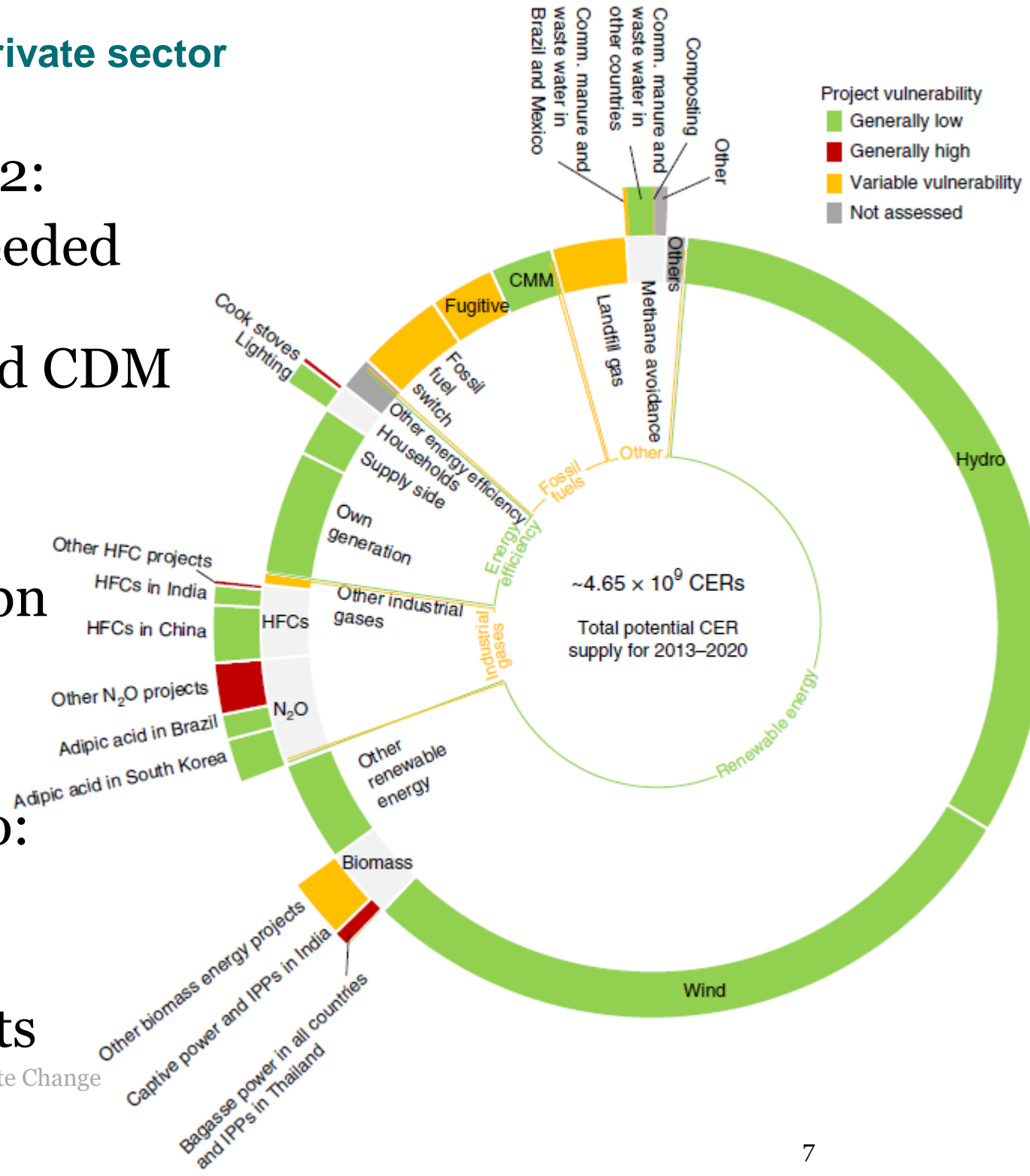
Article 6.4: Incentivizing private sector

➤ Market conditions 2: Scarcity of units needed

- Existing registered CDM projects 2013-20: > 4 billion CERs
- CORSEA: 1.6-3.7bn

➤ To generate new business, restrict to:

- new projects
- vulnerable projects



Source: C. Warnecke et al. (2019) Nature Climate Change
(<https://doi.org/10.1038/s41558-019-0415-y2>)

Questions and Discussion

- Mid-term conditions for private sector participation?

Framework	Design and support for national systems and capacities	Potential through digitizing MRV	...
Market	Market conditions: Price of units	Market conditions: Scarcity of units	...