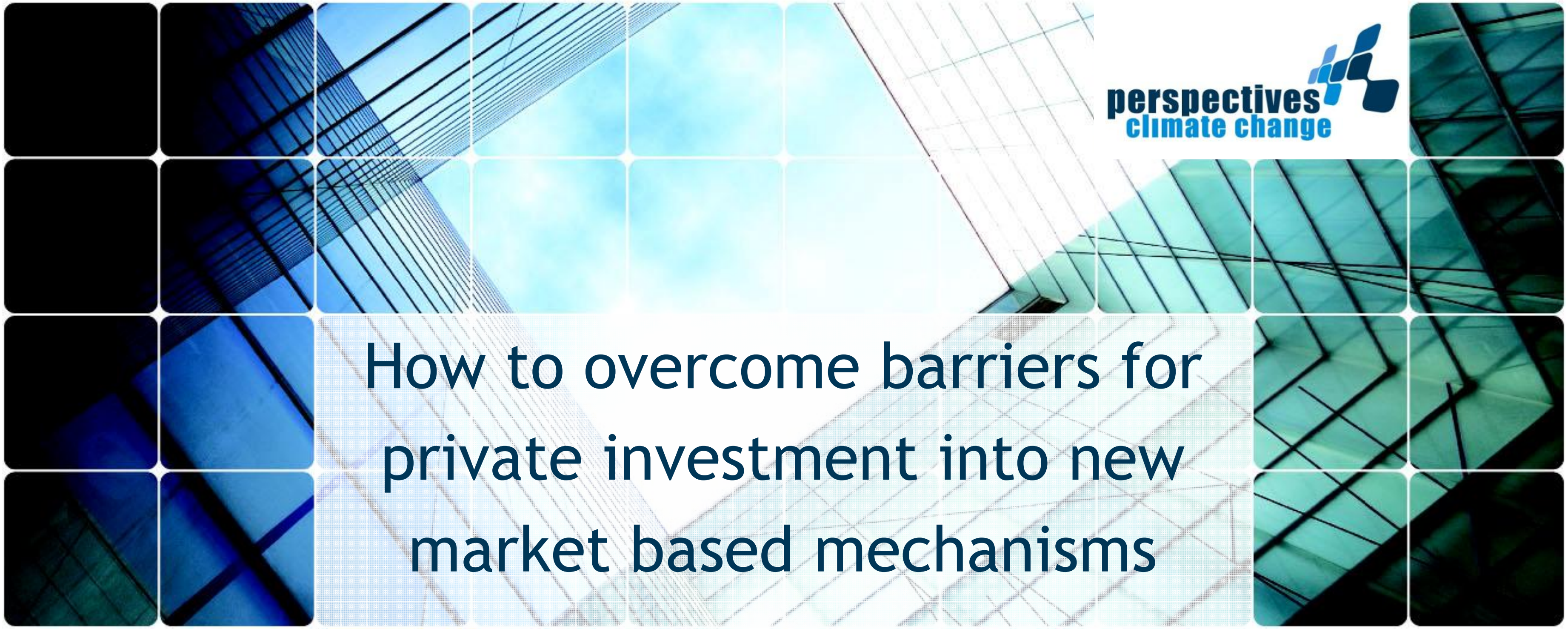


How to overcome barriers for private investment into new market based mechanisms

Key design elements of new market based mechanisms from an investors view

Liechtenstein side event, UN Climate Change Conference

Matthias Krey, CEO, Perspectives GmbH

15.06.2011, Bonn

Agenda

- Role of the National Governments in New Mechs
- Potential barriers to private investment
- Possible solutions addressing private sector concerns
- Role of NAMAs and Mexican NAMA pilot case
- Conclusions

Role of the National Governments

- Sectoral Trading & Sectoral Crediting requires credit issuing body at UNFCCC level
- Ultimate responsibility for emission reductions at the country level
- Trading of credits takes place at country level (similar to IET)
- Country has the possibility to pass on mitigation incentives (incentives for investment) to the (private) sector participants
- Level of incentive depends on design of mechanism and especially how credits are passed on from country to (private) sector level

Potential barriers to private investments

- Political risk: continuity of mechanism
- Governance risk: Transparency and credibility of MRV
- Risk of free riders (e.g. if credits are only granted, if whole sector meets target)
- Lack of guarantees in case of sectoral underperformance (especially relevant for Annex I country investors)
- First investment/credits later

Possible solutions addressing private sector concerns

- Guaranteed sectoral credit revenues
  - Internationally tradable credits for reducing emissions below a certain threshold (“sectoral” credits, or CERs/ERUs, if sectoral target not reached)
- Mandatory domestic emissions trading scheme
  - Requires possibility to exchange (surplus) national allowances into “sectoral” credits
- Tradable intensity standard
  - Benchmark at installation level
  - Installations beating benchmark receive “sectoral” credits
  - Installations exceeding benchmark purchase “sectoral” credits or CERs/ERUs and hand over compliance credits to country
  - Both latter amounts would be exactly equivalent to the amount which is required to reward the installations whose emissions are below the benchmark

Possible solutions addressing private sector concerns II

- Feed-in tariffs for renewable power generation
  - Increase of renewable power generation (and associated incremental emissions reductions) generates “sectoral” credits
  - Credits accrue to government to recover costs
- Similar models possible for subsidies, taxes, regulations

Role of NAMAs with regards to New Mechs

- NAMAs: voluntary and nationally appropriate mitigation action (Bali, COP 13)
- EU March 2011 submission on market mechanism to UNFCCC: “new market mechanisms could be NAMAs”
- Role of NAMAs
  - Unilateral NAMA: Domestic mitigation
  - Credited NAMAs: Credits for international carbon market
  - Supported NAMAs (EU perspective): Bridge builder for NAMA crediting/New Mechs towards global ETs (groups of countries with different transition times)
- Possibility for private sector to engage in NAMA pilots with crediting possibility to shape future rules

Role of NAMAs with regards to New Mechs

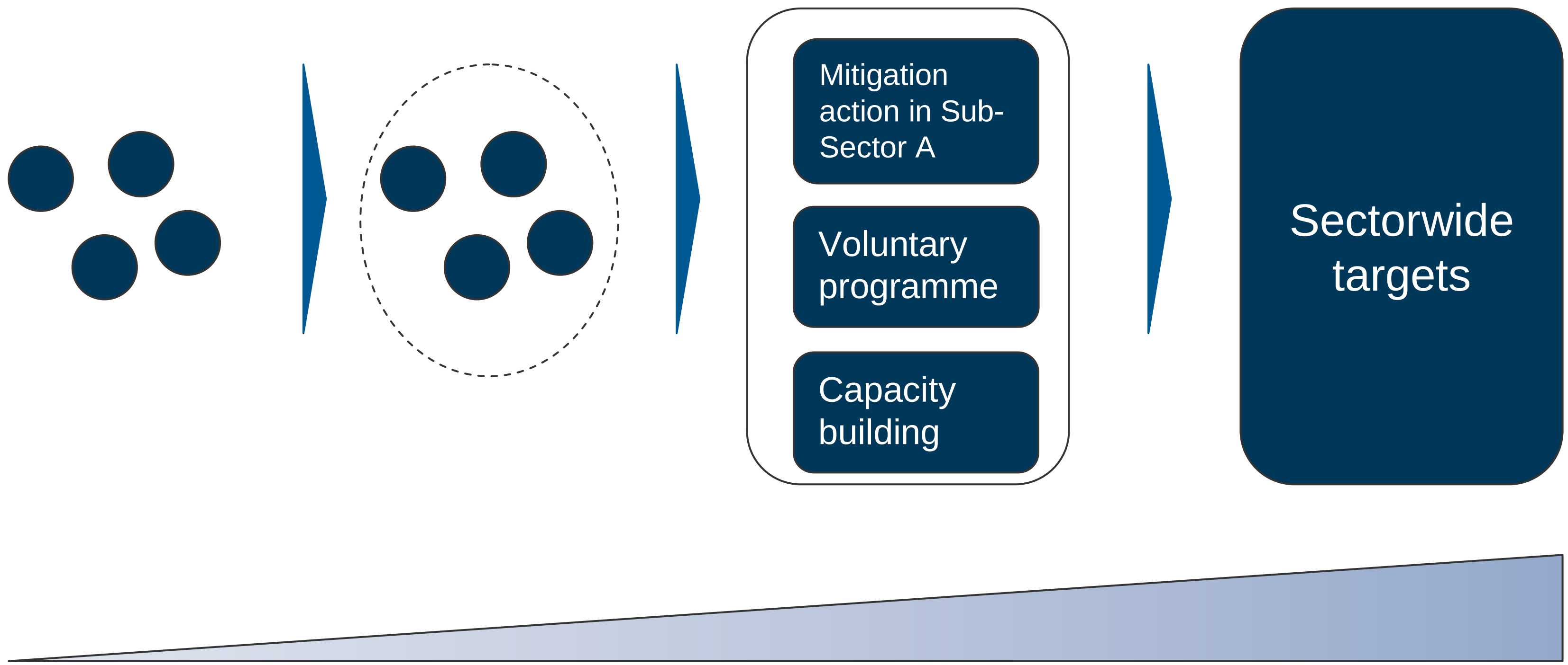
From single measures to sectorwide efforts

Single CDM projects

CDM Programme of Activites

Nationally Appropriate Mitigation Action - NAMA

Sectoral Mechanism



Scale of mitigation financing

Mexican Pilot NAMA (concept)

- (Sub)Sector: new housing
  - ~6 million houses until 2020
- Technology:
  - Efficient A/C
  - Efficient refrigeration
  - PV
- Supportive actions:
  - MRV
  - piloting building codes in federal states
- 0.2 billion EUR/a minimum financing need
- Public private NAMA fund to raise financing
- Opportunity for “sectoral/NAMA” crediting for PV (high incremental costs) or other technologies (e.g. based on ambitious technology benchmarks)

Conclusions

- If properly designed New Mechanisms offer ample opportunity for private sector engagement
- Involvement of host country considerably higher as in CDM (link to international carbon market, continuity, MRV); countries need to build trust among private sector participants
- Supported NAMAs offer opportunity for piloting towards New Mechs

Many Thanks for Your Attention!

Matthias Krey, Perspectives GmbH
krey@perspectives.cc

Mexican NAMA concept download:
www.perspectives.cc