Views on new market mechanisms under UNFCCC after Durban

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CEPS Carbon Market Forum (CCMF)
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A global utility perspective

- **A major compliance player in Europe**
  - Emitting facilities in 5 Member States
  - ~4% of ETS emissions
  - Well balanced mix with ~50% of fossil-free production

- **A leading player in the carbon market**
  - Largest private investor in CDM (up to 200 MtCO2e by 2020)
  - 70 M CERs issued (13%)
  - Direct participation to 114 projects

- **Strong presence in developing countries**
  - Major utility in several Latin American countries
  - Operations or presence in 9 out of 15 countries participating in the PMR

- **Vocal supporter of market approaches**
  - Organized with IETA the NMMs workshop and conference in Brussels last October
**Key messages from the Enel-IETA NMMs workshop and conference (1/2)**

1. A global, scaled-up involvement of the private sector primarily through market mechanisms is essential to achieve long term global emission reduction goals.

2. Market mechanisms should be a core part of a global agreement, assisting both developed and developing countries in achieving their targets and commitments at the lowest overall cost.

3. Pace of development of NMM will depend on there being demand for additional categories of emission reductions.

4. CDM still has an important role to play and provides important lessons for the design of NMM which should, where possible, leverage existing capabilities and infrastructures.

5. NMM should be based on top down rules as well as bottom up implementation, to encourage the creation of a global carbon market.
6. Baselines for new crediting mechanisms should both attempt to ensure environmental integrity of credits and reflect circumstances of developing countries.

7. Incentives must be right for host country, buying countries and private sector, and risks must be acceptable in order to attract the required investments.

8. Pilot projects and real experiments are key to progress towards NMM.

9. Both mechanisms design and capacity building will be improved by the direct involvement of private sector.

10. Urgent progress is needed on the international agenda, to avoid risks of fragmentation and loss of legitimacy.
A framework of common standards is needed

• **Coherence** among bottom-up approaches, avoiding policy and market fragmentation

• **Equivalence of carbon credits**, towards a global carbon market technology and country neutral

• **Integrity preserved and guaranteed**, ensuring robustness of schemes and preventing unilateral restrictions

• Built upon existing standards, baselines, benchmarks, but **adjustable to local specificities**

• Applicable to the top-down market mechanism as well
NMM shall appeal to three key groups

Host Governments
- Obtain inside and outside private investment
- Contribute to other public objectives
- Minimize costs and financial risks
- Minimize administrative requirements

Buyer Countries
- Obtain lower cost emission reduction opportunities
- Maintain environmental integrity
- Provide template for long-term agreement
- Reduce carbon leakage/preserve competitiveness

Private Parties
- Obtain sufficient return on investment
- Avoid increased costs/reduced competitiveness
- Face acceptable/manageable risks

Both host governments and buyer countries shall provide incentives to the private sector to act

Source: based on "Evaluation of incentives for international sectoral mechanisms", a NERA report prepared for Enel
Alternative host government approaches

A “hybrid” approach (e.g., some government insurance on credits along with some government policies) is the most likely to succeed in attracting investments.

Source: "Evaluation of incentives for international sectoral mechanisms", a NERA report prepared for Enel
Conclusions

• Despite lack of demand, a decision on NMM is needed at COP18 to bring all existing and future initiatives under the same umbrella.

• **Common standards** will pave the way towards a global carbon market.

• **Demand** for emission reductions under NMM shall come from both developed and developing countries.

• Baselines and benchmarks shall reflect the **differences among various markets**.

• Developing countries should **leverage international public finance** (e.g. Green Climate Fund) to mitigate risks in NMM and attract private sector investments.