BUSINESS REQUIREMENTS OF A NEW MARKET BASED MECHANISM

CEPS Carbon Market Forum
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RATIONALE FOR MARKET BASED MECHANISMS

- Establish a carbon price to incentivise private sector investment
- Increase cost effectiveness of mitigation actions
- Enables large scale emissions reductions

BUT... Carbon pricing is currently being introduced piecemeal throughout the economy which results in:

- Less efficient abatement
- Unclear price signals for private investment
- Increased risk of carbon leakage
REQUIREMENTS OF ‘NEW’ MARKET MECHANISMS

Supply and demand balance
• Must include crediting & trading schemes.
• Need to have targets and ambitious baselines.

Long-term certainty
• Must ensure market confidence through long-term viability of the scheme.
• The future DPEA should deliver commitments to enhance certainty.

Scale (lessons from the CDM)
• Project a real carbon price into the economy.
• Needs to generate LARGE scale emissions reductions rather than focusing on developmental needs.

Global Linkage
• Multilateral linkage of national approaches to build-up into an eventual global carbon market.
• Ensure fungibility of credits, avoid carbon leakage and regulatory arbitrage.
Does a NMM that only creates a supply of credits have any future?

How do you create long-term certainty & confidence in a market based system?
Structure of an International Carbon Market

Carbon Market Executive Board (CMEB)

Supply Mechanisms:
CMEB issues credits Ex-Post

Demand Mechanism:
CMEB issues NAUs Ex-Ante

Financial Structures

- Credited NAMA
- Traded NAMA
- Unilateral NAMA
- Supported NAMA

International Carbon Market

Domestic Mitigation Efforts