SESSION II. New mechanisms and commodities

HOW TO MAKE NEW TOOLS WORK IN THE CARBON MARKET

Henry Derwent
Will it work? Answer these questions…

- Can I safely suspend disbelief in UNFCCC ability to produce new private finance mechanisms?
- Can I safely suspend disbelief in the political acceptability of the reduced guarantees of environmental integrity entailed by scaling up?

If so…..

- Where is the demand for the product(s)?
- Where is the capacity on the supply side?
- Who are we lending money to?
- Whose actions will impact on getting the expected return?
- What public sector support and regulation are we relying on?
- What process determines when and how we get paid?
- Who bears each part of each risk?
- What transaction costs and timing constraints?
- What alternative investments are available (opportunity cost)?
NAMA/Sectoral1: Centralised Coordination of Mitigation and Crediting

Co-ord body reports emissions and receives International credits for distribution or sale

International Credit Issuing Agency

SCP baseline Creditable Emissions Reduction Objective

Firm A B C
Period 1

A B C
Period 2

Sectoral Coordinating Entity

Impositions And policies
NAMA/Sectoral 2: Domestic Sectoral Trading System

Government reports emissions and receives International credits for distribution or sale

SCP baseline
Cap and Trade Cap

Firm A  B  C
Period 1

Firm A  B  C
Period 2

International Credit Issuing Agency

Domestic Sectoral Trading System
NAMA Sectoral 3: Installation-level Mitigation and Crediting

Intl. Agency issues direct to installations; Government makes good where necessary

Firm A      B       C                       A        B        C
Period 1                                  Period 2

Intl. Credit Issuing Agency

SCP baseline Cap and Trade Cap

Government

Trading

Firm A B C
Period 1

A B C
Period 2
Low Carbon: who pays?

- Basic high-carbon cost – may also decline
- Uneconomic low carbon incremental cost – declining over time
  IEA $46tr worldwide for energy alone

- Govt subsidy – today’s taxpayers, domestic or foreign
- Govt borrowing – tomorrow’s taxpayers (net of any national economic benefit – cost transferred to foreign companies or Govts)
- Company shareholders
- Company customers (regulated?)
- Buyers of carbon units – domestic or foreign – and their shareholders/customers

$ Total Project cost

- Uneconomic low carbon incremental cost – declining over time
  IEA $46tr worldwide for energy alone
- Basic high-carbon cost – may also decline

Cheaper than high-carbon? But when?
A combination of payers: GNBs

Elimination of investment risk exposure

Step 1 - Verified National Inventory

- Large scale investment funds for infrastructure projects in developing countries

Step 2 - GCCUs based on verified national inventory

- Issuance of National Green Bonds to fund community energy efficiency project

Step 3a - Bond Issuance Design Document (BIDD) for proposal - eg a step change in public housing insulation policy

Step 3b - Validation of Host BIDD by IGBB to accompany GCCUs to OECD

Host Country (Developing)

Step 4a - GCCUs equivalent to bond financing value for investment in community energy project

Step 4b - Issuance of National Green Bonds to fund community energy efficiency project

Step 5a - Nominal dividend and carbon credits from emission reduction projects

Step 5b - GCCUs back to Host country in line with bond performance and maturation

International Green Bond Board (IGBB)

IFI Guarantee (Annex 1)

Regulation of credit risk exposure

How they might work

Green Bond surety provision

How they might work
27 – 28 Oct 2010
Raffles Centre
Singapore

CARBON FORUM ASIA
Carbon Market
Trade Fair & Conference

Sustainable Energy Association of Singapore

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IETA
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