



Second meeting of the CEPS Task Force on
The carbon market after Copenhagen:
Challenges and the way forward for the EU

Brussels September 15 2010

SESSION II. New mechanisms and commodities

**HOW TO MAKE NEW TOOLS WORK
IN THE CARBON MARKET**

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IETA
INTERNATIONAL EMISSIONS
TRADING ASSOCIATION



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?

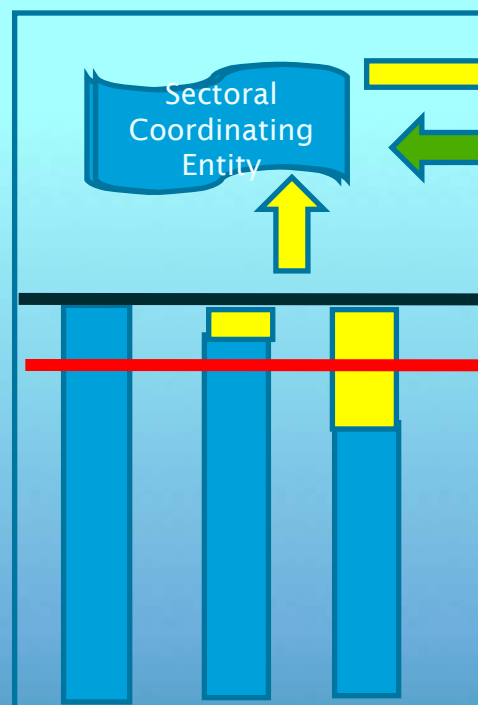
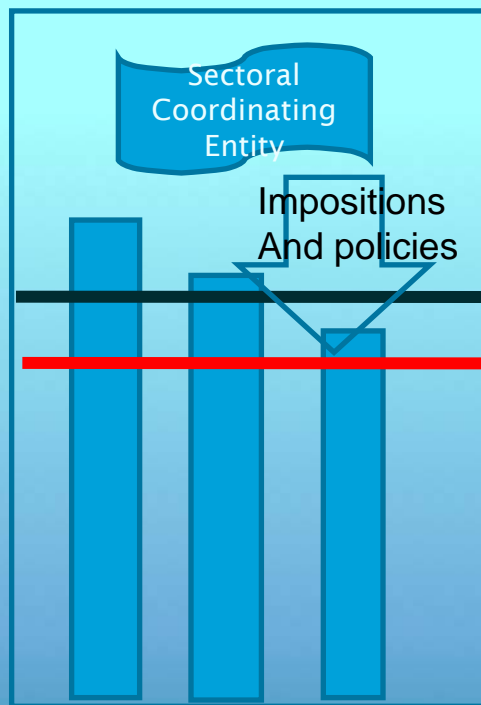
If so.....

- 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/Sectoral 1: Centralised Coordination of Mitigation and Crediting

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



SCP baseline
Creditable Emissions
Reduction Objective

Firm A
Period 1

B

C

A
Period 2

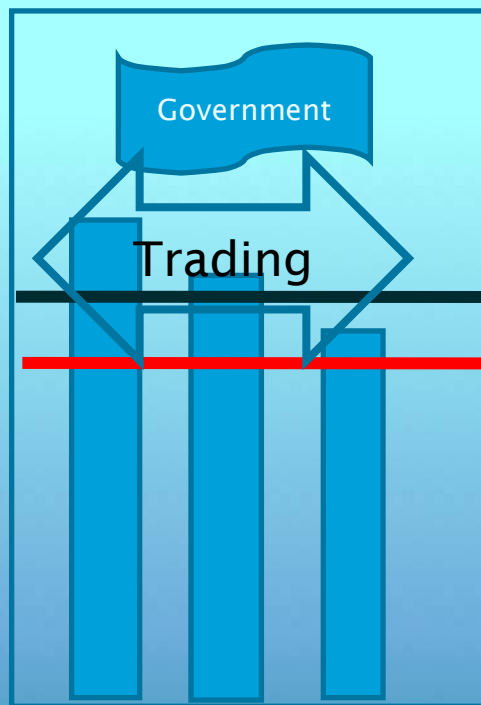
B

C



NAMA/Sectoral 2: Domestic Sectoral Trading System

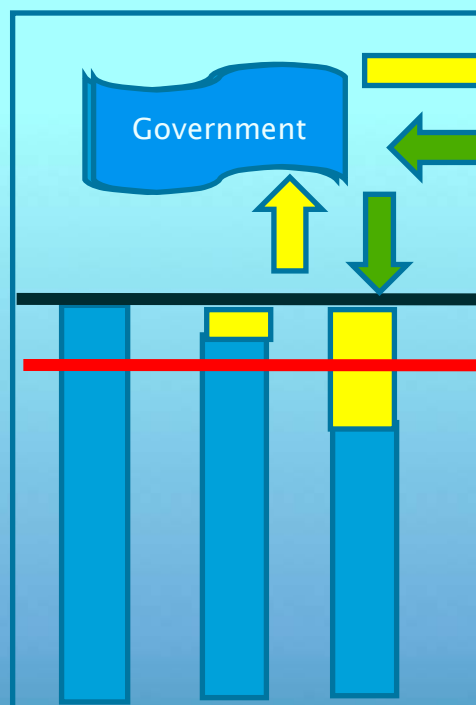
Government reports emissions and receives
International credits for distribution or sale



Firm A
Period 1

B

C



A
Period 2

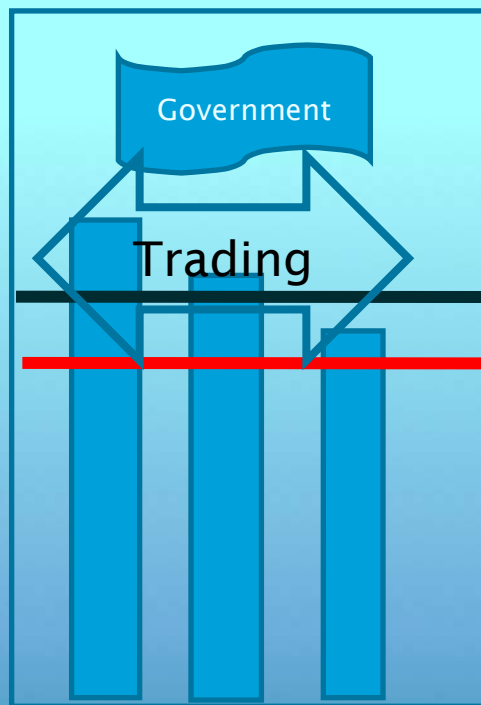
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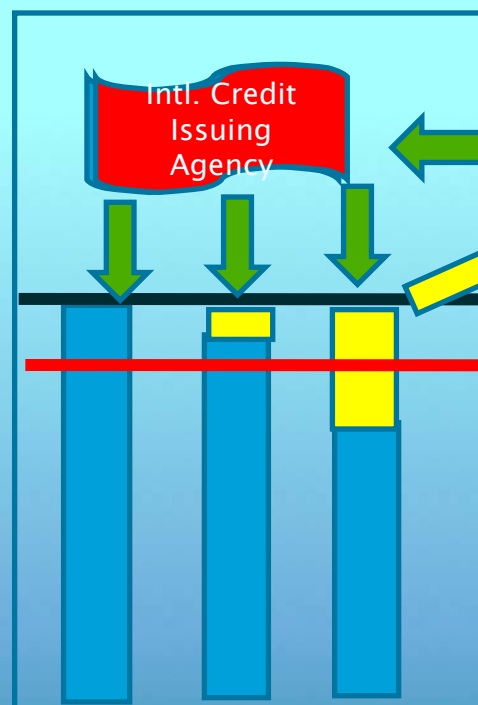


NAMA Sectoral 3: Installation-level Mitigation and Crediting

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



Firm A B C
Period 1

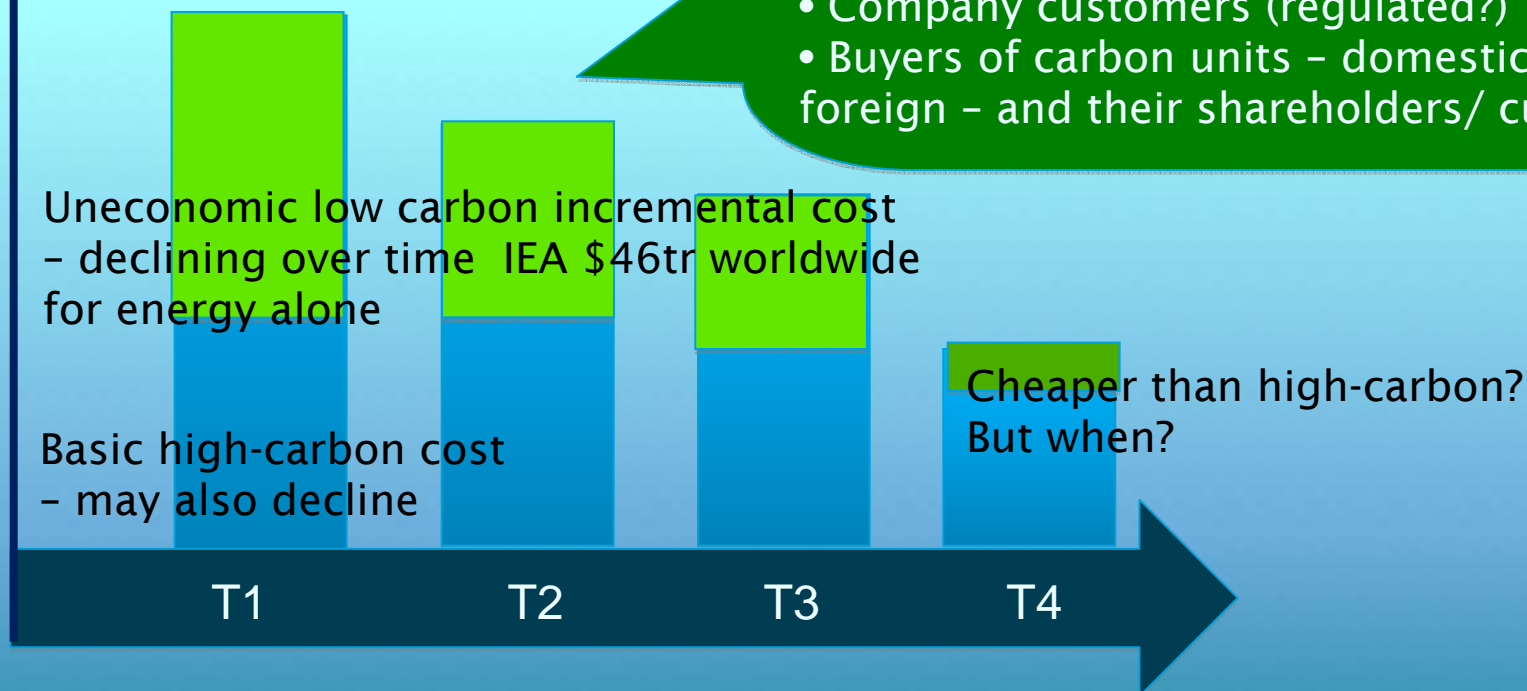


A B C
Period 2



Low Carbon: who pays?

\$ Total Project cost



- 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



A combination of payers: GNBs

IFI Guarantee (Annex 1)

How they might work

Elimination of investment risk exposure

Regulation of credit risk exposure

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

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

Step 2 - GCCUs based on verified national inventory
Step 3b - Validation of Host BIDD by IGBB to accompany GCCUs to OECD

- Large scale investment funds for infrastructure projects in developing countries

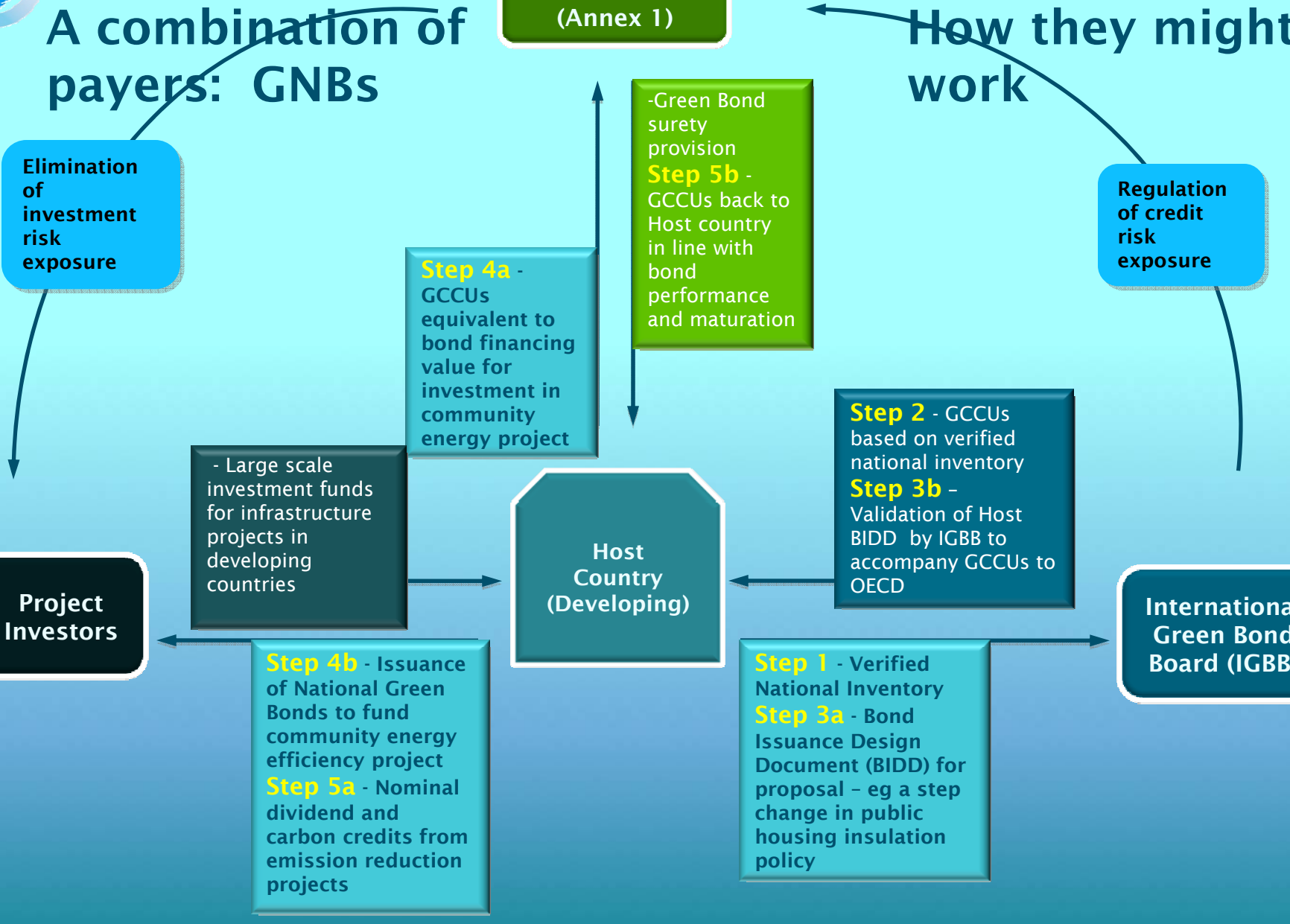
Host Country (Developing)

Project Investors

International Green Bond Board (IGBB)

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





CARBON

FORUM

ASIA

Carbon Market

Trade Fair & Conference

27 – 28 Oct
2010
Raffles Centre
Singapore



ADB



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MAKING MARKETS WORK FOR THE ENVIRONMENT