A New Market Mechanism

How to attract private sector investment

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Key messages

- **Scale** of the need demands a significant new market mechanism to stimulate investment
- **Continuity** from the old crediting mechanisms to a New Market Mechanism is essential for building business confidence
- **Fungibility** of credits will promote the most efficient global allocation of capital

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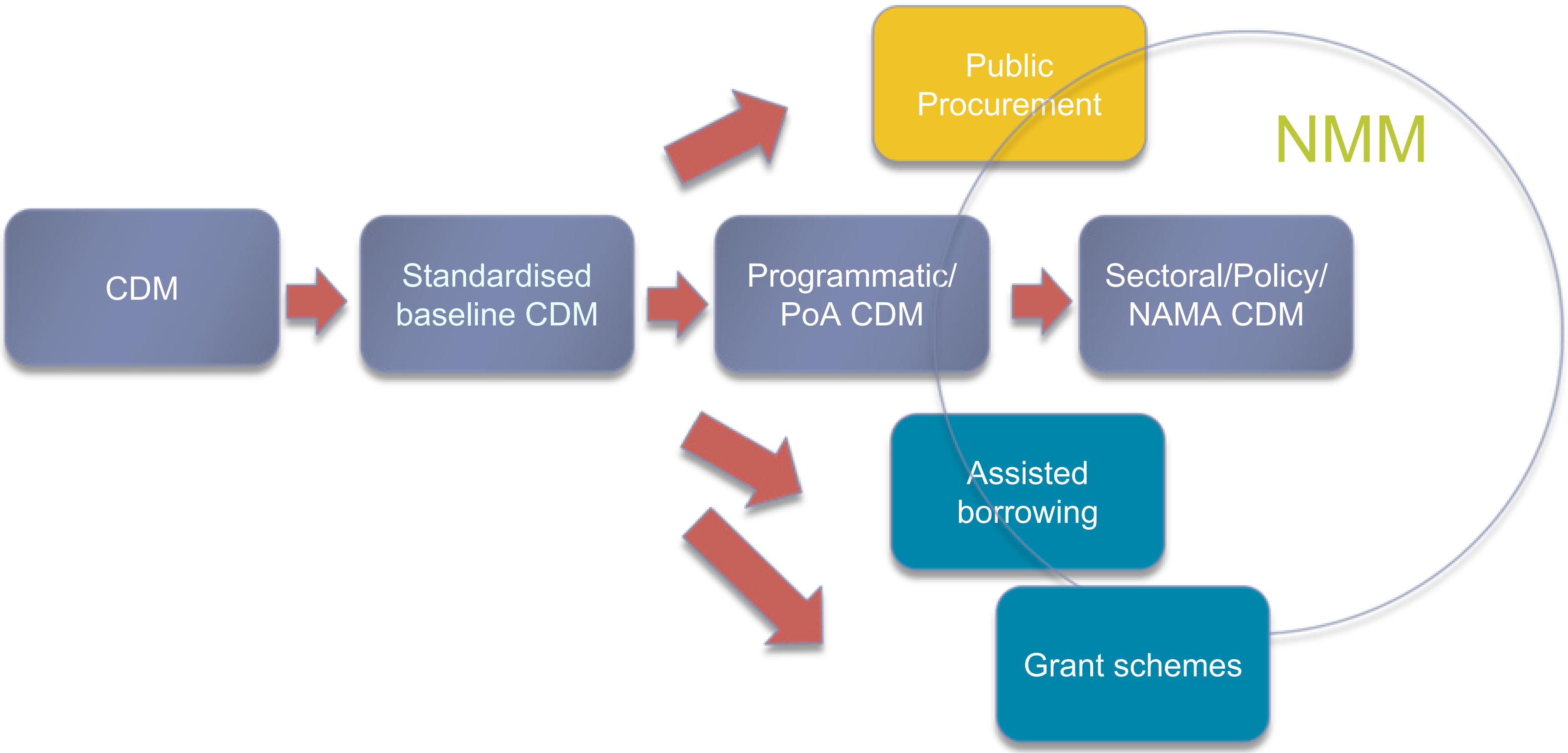
Why is a *NEW* Market Mechanism is needed?

Amount (USD)	Purpose	Source
$15 trillion	Total estimated additional investment (beyond BAU, redirecting capital from conventional to low-carbon technologies) required internationally in the energy sector between now and 2035, consistent with +2^{0}C climate stabilization target.	IEA
$200 billion	Approximate additional (low/no-carbon) energy sector investment required in developing countries in 2020, consistent with +2^{0}C climate stabilization target.	IEA
$139-175 billion	Annual mitigation costs in developing countries by 2030, consistent with a +2^{o}C climate stabilization target.	World Bank
$265-565 billion	Associated annual climate financing requirements by 2030 in developing countries, consistent with a +2^{o}C climate stabilization target.	World Bank
$75-100 billion	Estimated costs over the next forty years to support climate adaptation in developing countries consistent with a +2^{o}C climate stabilization target.	World Bank
$9 billion	Approximate amount of existing public contributions to climate change investments in developing world climate.	WEF
$110 billion	Total sum of climate-related public sector commitment underway, even if delivered to their maximum ambition.	WEF
$350 billion	Annual potential climate change financing shortfall.	WEF
$12 trillion	Estimated amount of assets under control by institutional pension funds in 2010.	SWF Review
$3.5 trillion	Estimated amount of assets under control by sovereign wealth funds in 2010.	SWF Review
$100 billion	Under the non-binding Copenhagen Accord, the annual amount of climate financing committed by developed countries by 2020. Funding to come from a variety of public and private sources. Shared vision is +2^{o}C climate stabilization goal.	UNFCCC

Because of the huge scale of the need.

What would make it *NEW*?



Evolution from current to new market based systems should aim for continuity in order to create a stable investment climate

How could a NMM attract private finance?

- Best approach would create a single new GHG commodity
- Focus on fungibility
  - Improved emissions data management requirements, and
  - Standardizing and aggregating the quantification of emissions reduction data
- Allow option of a central registration & issuance facility at UN level, using CDM infrastructure
- If disparate systems evolve, an international credit conversion mechanism may be needed
  - Would help promote fungibility and fair valuation

Source: IETA Submission to AWG-LCA

A simple conceptual design

- A new sectoral crediting mechanism could offer countries a framework with three choices:
  - **Benchmark crediting** : credit at project level based on a common standard (per unit of output)
  - **Policy crediting**: credit awarded at national or regional level, based on country-specific methodologies
  - **Aggregate crediting**: credit at pre-defined sectoral or sub-sectoral level against baseline

Source: IETA Submission to AWG-LCA

Thank you for your attention!

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