Means to achieve mitigation objectives

Emissions Trading and the Project-based Mechanisms

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International Emission Trading and the Flexible Mechanisms:

• Form building blocks of international carbon market

• Major influence on compliance opportunities

• Increasingly underpin design of emerging domestic and regional trading schemes

• Essential part of future agreement
Problems in the international market (1)

- Market for Kyoto units (AAUs, CERs, ERUS, RMUs) has become highly differentiated -
  - fungibility of different Kyoto units is very limited
  - inherent delivery and project risk issues

- Limited transparency (especially for AAUs trade)
Problems in the international market (2)
Article 17

• Reason for lack of fungibility:
  – not so much design of international rules
  – but different approaches Parties are adopting towards different Kyoto units for compliance purposes domestically.

• Need to promote broader acceptance of units in domestic and regional ETSs
Article 17

• Many Parties are and will look actively at Green Investment Schemes (GIS)

• However,
  – lack of transparency in this market is an issue
  – role for UNFCCC in providing market with more information about GIS – perhaps by providing database of GIS projects?
Commitment Period Reserve

- When level of CPR set for CP1 (90% of initial Assigned Amount), some uncertainty as to impact rule would have on liquidity of market.

- NZ’s current experience in designing a domestic ETS, CPR may potentially constrain liquidity in domestic market.
Commitment Period Reserve

New Zealand would like CPR reviewed

New Zealand proposes that:
For Parties that have fully met their international obligations in CP1, there be a reduced CPR requirement in CP2
Levies on AAUs and ERUs

- New Zealand acknowledges need for financial flows to fund adaptation
- Need further analysis of costs and benefits of alternatives
- Linkages with AWG-LCA
- Key issue is to ensure a reliable flow of funds
Article 12: Clean Development Mechanism

• NZ supports greater distribution across source and sink activities

• NZ supports improving regional distribution by removing existing barriers

However,
NZ concerned about any steps to mandate where project activities should occur
Article 12: Clean Development Mechanism

- NZ supports a move from a purely project based (offsetting) mechanism to explore greater use of sectoral-CDM and no-lose targets
Supply and Demand

• Important to bear in mind the relationship between supply and demand on international carbon market

• Similarly price levels are important

But, international community should not be seeking to restrict supply options at this stage