



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