

New Market Mechanisms Workshop & Conference

A European dialogue on scaling up private sector
involvement in UN climate solutions



EXECUTIVE SUMMARY | BRUSSELS, OCTOBER 13-14, 2011



Executive Summary

The New Market Mechanism Workshop and Conference held in partnership with IETA and Enel, took place in Brussels during 13-14 October, 2011. It brought together over 100 experts and key players from a full range of private stakeholders that are affected one way or another by climate policy. Key messages on ways to entice private sector involvement in climate solutions rose from the first day of discussions. They were presented to policymakers on day two of the event, and the public sector also provided its view of how the private sector can get involved in the climate policy debate.

13 October - WORKSHOP

The atmosphere was remarkably optimistic as the workshop delivered a platform for the private sector to express its views of what a future market mechanism should look like and to encourage private sector participation as well.

The focus of day one was built around the corporate world's reflection on the issues surrounding existing mechanisms and what modifications and add-ins were needed to lure private investment. Following four intense sessions and discussions surrounding **Options and Objectives on Scaling-Up New Market Mechanisms (NMM), Nationally Appropriate Mitigation Actions (NAMA) and Crediting Policies, Sectoral Mechanisms Options, and Enablers and Market Pull**, the participants put forward some thoughts on methods of engagement (see *key messages*).

Many uphill issues, challenges and questions were notably addressed: where the demand for credits issued from NMM might come from, how NAMA rules can be better defined, how to venture into new climate finance opportunities, and preserve the core elements of

Clean Development Mechanisms (CDM), and what the COP17 Durban might deliver in those regards. The body of this document describes the issues discussed on each panel and detailed output notes from the sessions.

Here are a few high level points:

On scaling-up New Market Mechanisms

- > The public sector cannot raise the necessary level of climate finance (100bn Cancun pledge) without the private sector.
- > Any NMM needs to provide incentives and acceptable risks to the three key actors (host countries, buyer countries and private sector).
- > For that, NMM should build on the CDM experience to avoid scaring investors away and accentuating the risk of the unknown.

On NAMA and crediting policies

- > Building investment security needs to revolve around standardized Monitoring Reporting Verification (MRV) protocols.
- > Urgent progress in the international agenda is needed to ensure standardization. Otherwise, there is a risk of seeing the market fragmented and losing legitimacy of credits derived from a NMM.
- > To create fungibility of units and facilitate comparability of actions, there is a need for:
 - *Standard methods* to certify environmental integrity
 - *International structure* to track and certify different credits for exchange and trading
 - *Common standards* with flexibility to meet desire targets.

On sectoral mechanisms options

- > Sector definition needs to be clear, and approach sectors to find out whether they are interested in putting in place a sectoral mechanism without jeopardizing local competitiveness.
- > Sectoral approaches can provide the structure of a framework for a NMM as long as the credibility and transparency for establishing reliable MRV tools with defining baselines are set.
- > Bottom-up approach from a particular sector's angle might be required to bypass political uncertainty when creating NMM and can be used to set up eventual bilateral agreements.

On enablers and market pull

- > The private sector is willing to invest in domestic schemes if there are the necessary guarantees about:
 - environmental integrity
 - reduced risks (political, financial, etc.)
 - return on investment
 - liquidity in the markets
- > Unlimited private funding is available, but there has to be the right risk/return trade off.
- > Market mechanisms are not limited to support annex 1 countries, but capacity building will be needed at a very large scale to include all parties.
- > They can be achieved in partnership between developed and developing countries with a direct involvement of the private sector.

From discussions

- > Considering the creation of the CDM took 4 years, and Durban will not likely deliver binding agreements, policymakers need to consider the realistic timing of the implementation of NMM in the market.
- > For a rapid involvement of the private sector, how far can the existing mechanism be scaled up in the short term to incentivise the corporate world?
- > Overall practical and on-the-ground experiences from mechanisms that go beyond the CDM are the best way to test NMM against environmental and financial challenges.



14 October - CONFERENCE

After the key messages were presented to a public-private audience, keynote speeches and high level private roundtable discussions continued on day two's conference when policy makers were invited to tune into what had been discussed on the previous day and panels.

They were also given the podium to articulate their views on establishing NMM, the role the private sector should play, and their expectations on how the negotiations will play out in Durban.

Some key points from that day's interventions are listed below.



From keynote speeches

- > The carbon market is young, and while there have been a few bumps during its development; the CDM is still an overall success.
- > The overall lesson from the CDM is that it brought together a wide range of project types, countries and project developers, which is a huge achievement.
- > There are a lot of instruments that exist but we need to mobilize the support of a new mechanism, and that would reduce the investment risk companies incur when they enter project investments.

From the private sector roundtable

- > However to scale up a NMM, there following need to be included:
 - sharing of risk for both financial and technological deployments
 - ensuring that there is local finance infrastructure to convert currency risk and local finance is available to the supply chain
 - agreement on the governance arrangement for technology and finance tool such as the Green Climate Fund (GCF).

From Public sector roundtable

- > The private sector can play a very important role but mitigation is only one aspect of climate change involvement. Adaptation, finance, technology transfer and capacity building are all aspects in which the private sector can contribute to.
- > There are no obstacles in the previous agreements for private parties to get involved in climate change mitigations, but governments need to work on private sector incentives
- > The debate needs to address the demand for where all these credits is going to come from-this is a fundamental market issue.

One of the soft goals of the workshop and conference was to improve communication between public and private sector stakeholders. Each holds a key element that can help solve the others challenge in dealing with climate solutions.

Both parties often share similar goals, but they speak and operate in such different ways that it can make cooperation and partnership almost impossible.

The event was meant to break down that barrier, to hold open discussions on the issues at hand, and come up with defined solutions that can be taken up in upcoming negotiations.

If this event-if only mildly-helped on improving communications between the public and private sectors, then the exercise was worthwhile.

- > There is a framework to establish some form of standardized recognition of credits issued from the domestic schemes to ensure the same level plane field.
- > For NMM, there is a great future for funds and the private sector as they have the critical financial mass, know-how, and technological innovation that can deeply contribute to the debate. The financial sector can be used as a buffer for the excess credits but they need to be pro-active.

Ten Key Messages proposed by the Private Sector

1 Involvement of the private sector
A global, scaled-up involvement of the private sector primarily through market mechanisms is essential to achieve long term global emission reduction goals.

2 Global agreement
Market mechanisms should be a core part of a global agreement, assisting both developed and developing countries in achieving their targets and commitments at the lowest overall cost.

3 Demand for reduction
Pace of development of new market mechanisms will depend on there being demand for additional categories of emission reductions.

4 The role of CDM
CDM still has an important role to play and provides important lessons for the design of new market mechanisms which should, where possible, leverage existing capabilities and infrastructures.

5 Top down and bottom up
New market mechanisms should be based on top down rules as well as bottom up implementation, to encourage the creation of a global carbon market.

6 Environmental integrity of credits
Baselines for new crediting mechanisms should both attempt to ensure environmental integrity of credits and reflect circumstances of developing countries.

7 Incentives and risks
Incentives must be right for host country, buying countries and private sector, and risks must be acceptable in order to attract the required investments.

8 Pilot projects and real experiment
Pilot projects and real experiments are key to progress towards new market mechanisms.

9 Design and capacity building
Both mechanisms design and capacity building will be improved by the direct involvement of private sector.

10 Urgent progress
Urgent progress is needed on the international agenda, to avoid risks of fragmentation and loss of legitimacy.

List of Speakers

Jun Arima	<i>Director General JETRO and Special Advisor on Governmental Affairs - Ministry of Economy, Trade and Industry, Japan</i>
Richard Baron	<i>Head of Climate Change Unit, International Energy Agency</i>
Nick Campbell	<i>Environment Manager, Fluorinated Products, Arkema</i>
Jos Delbeke	<i>Director General, DG Climate Action, European Commission</i>
Giuseppe Deodati	<i>Head of Unit, Enel's Regulatory, Environment and Carbon Strategy Dept.</i>
Henry Derwent	<i>President and CEO, International Emissions Trading Association</i>
Giles Dickson	<i>Vice President, Government Relations Europe, Alstom</i>
Alberto Glender	<i>Counsellor for Environment and Energy, the Mexican Mission to the European Union</i>
David Harrison	<i>Senior Vice President, NERA Economic Consulting</i>
Anna Lehmann	<i>Senior Advisor, Forest and Land Use Policy, Climate Focus/Leaf Project</i>
Andrei Marcu	<i>Senior Vice President, Head of Policy and Regulatory Affairs, Mercuria</i>
Damien Meadows	<i>Head of Unit, International Carbon Market, Aviation and Maritime, European Commission</i>
Giuseppe Montesano	<i>Head of Environmental Policies & Climate Change, Enel</i>
Simone Mori	<i>Executive Vice President, Director of Regulatory, Environment and Carbon Strategy, Enel</i>
Tosi Mpanu Mpanu	<i>Director of the Clean Development Mechanism (CDM) Designated National Authority of the Democratic Republic of Congo (DRC) and chair of the African Group on Climate Change negotiations under the UNFCCC</i>
Felix Nickel	<i>Member of the Board, FutureCamp Climate</i>
Manuela Ojan	<i>Climate Protection Manager, Italcementi Group</i>
Gareth Phillips	<i>Chief Climate Change Officer, Sindicatum and Member of the Board</i>
Klaus Oppermann	<i>Team Leader, Policy and Methodology Team - Environment Dept., Carbon Climate Unit, the World Bank</i>
Andrew Prag	<i>Policy Analyst for Climate Change Experts Group, Environment Directorate, OECD</i>
Ingo Puhl	<i>Chief Growth Officer and Director, South Pole Carbon Asset Management</i>
Simone Ruiz	<i>European Policy Director, International Emissions Trading Association</i>
Alexander Sarac	<i>Legal Director, Energy Infrastructure Finance and Commodities, DLA Piper UK</i>
Carsten Schirmeisen	<i>Senior Manager Climate Change, Holcim</i>
Guido Schmidt-Traub	<i>CEO, CDC Climate Asset Management</i>
Florian Sekinger	<i>Head of Competence Center for Carbon Credits, KfW Carbon Fund</i>
Niclas Svenningsen	<i>Manager, Strategy and Policy Unit, UNFCCC</i>
Guy Turner	<i>Director Commodity Market Research, Bloomberg New Energy Finance</i>
Owen Wilson	<i>Head of Health, Safety and Environment, Electricity Supply Board</i>
Li Xiangfeng	<i>First Secretary, the Chinese Mission to the EU</i>

References

Contacts

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Further information

The full report and all presentation materials used during the event can be obtained at ieta.org/past-events

