

Carbon Pricing: Post-2012 Trends

CDM, Sectoral Crediting, REDD+, NAMAs, Green Bonds

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Copenhagen Accord – Political Agreement

- Copenhagen Accord is not a formal decision of the COP, nor is it a legally binding international agreement recognized under the UNFCCC
- Operates as a political statement by those Parties that choose to endorse it and, at best, creates bilateral or multilateral relations between those Parties
- To date 114 Parties have associated themselves with the Accord and 55 Parties have submitted national pledges

Accord – Developing country mitigation

- Non-supported mitigation by non-Annex I countries:
 - communicated through national communications
 - be subject to domestic measurement, reporting and verification every two years
 - “international consultation and analysis” in accordance with clearly defined guidelines and respecting “national sovereignty”
- Supported mitigation by non-Annex I countries:
 - those international support (finance, capacity building and technology) will be recorded in a registry
 - subject to international measurement, reporting and verification

Accord – Financial commitments

- Pledges “[s]caled up, new and additional, predictable and adequate funding as well as improved access shall be provided to developing countries ... to enable and support enhanced action”
- 2 significant funding commitments from developed countries to the developing world:
 - “fast start” investment of USD30 billion from 2010 – 2012
 - long-term commitment of USD 100 billion per year by 2010
- The funding is for:
 - adaptation
 - forest loss prevention (REDD+)
 - technology development and transfer

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Accord – Australia and New Zealand pledges

- Australian Government committed \$340 million in official development assistance - money to be channelled as follows:
 - \$106.2 million to be channelled through multilateral agencies, including the Least Developed Countries Fund (\$5.0 million) and the Climate Investment Funds
 - \$178.2 to be channelled through the bilateral International Climate Change Adaptation Initiative
 - \$56 million to be channelled through the bilateral International Forest Carbon Initiative
- New Zealand committed \$44 billion under the Copenhagen Accord

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Existing UNFCCC Funds mitigation and adaptation

- Global Environment Facility (**GEF**) – an operating entity of the UNFCCC's financial mechanism
- Least Developed Countries Fund (**LDCF**) – which was established to assist LDCs under the Convention
- Special Climate Change Fund (**SCCF**) – established under the UNFCCC to finance activities complementary to those funded by the resources allocated to the GEF. Eligible activities for funding include adaptation, technology transfer, energy, transport, industry, agriculture, forestry, waste management and activities to help developing countries diversify their economies



Existing UNFCCC Funds mitigation and adaptation

- Adaptation Fund (**AF**) – established to fund "concrete adaptation projects and programmes" that are country-driven and are based on the priorities of the most vulnerable countries
- Bilateral, regional and multilateral channels – funding provided for in keeping with developed countries' obligations under Article 11.5 of the UNFCCC

Sources of Climate Finance Post-2012

- Carbon-linked finance:
 - CDM / Programmatic CDM
 - REDD+ crediting
 - Sectoral crediting
 - NAMAs and green bonds??
- Non-carbon market linked finance:
 - NAMAs
 - Green bonds
 - Sovereign wealth funds
 - Official Development Assistance
 - Debt swap programmes
 - Foreign exchange reserves

REDD+ Financing

- Windows for REDD+ within existing funding sources (e.g. Convention Funds)
- New and additional funds e.g. REDD+ fund under the COP sourced from
 - Market linked sources (auctioning AAUs, international penalties, carbon taxes, international levies)
 - Public bilateral and multi-lateral funding, ODA
- Access to markets
 - Nature of a REDD+ crediting mechanism
 - Likely to draw on voluntary standards/methodologies being developed

REDD+: Financing

- Funding:
 - Existing developed country interim funding commitments: approximately US\$4 billion
 - Existing developing country interim funding commitments: over US\$2 billion
- **Australia:** Australia has pledged USD120 million for REDD+ from 2010 – 2012

Nationally Appropriate Mitigation Actions (NAMAs)

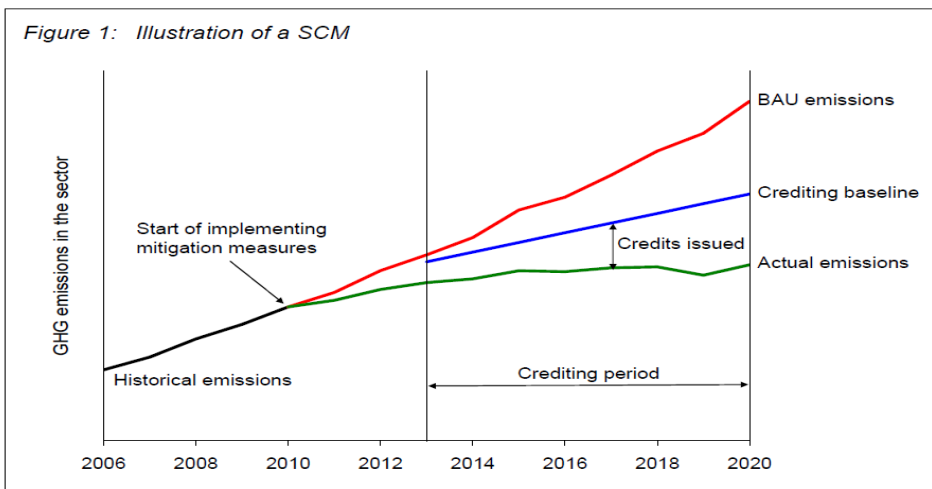
- NAMAs refer to mitigation policies and actions taken on by developing countries at national or sectoral levels
- NAMAs formed part of the Bali Action Plan and the Copenhagen Accord
- Financing details in relation to NAMAs are yet to be determined:
 - But clear that developing country parties' NAMAs will be enabled and supported by “new and additional” finance, technology and capacity-building provided by developed countries

Sectoral crediting / Sectoral CDM

- Bali Action Plan:
 - “cooperative sectoral approaches and sector-specific actions” in order to enhance mitigation efforts
- Under a sectoral crediting mechanism (SCM), reduction of GHG emissions below a defined level is credited for an entire sector:
 - credits issued for difference between actual emissions in the sector and a defined crediting baseline
- Mechanism would be non-binding and no sanctions imposed if the actual emissions are not reduced (“no-lose” targets)

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Source: Lambert Schneider and Martin Cames, Institute for Applied Ecology, *A Framework for a Sectoral Crediting Mechanism in a Post-2012 Climate Regime*, Report for the Global Wind Energy Council, Berlin, 28 May 2009 at p. 8

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Green bonds / Carbon financing

- Green bonds would be issued by host country institution
 - pay holders a low-coupon plus pre-agreed volume of carbon credits
 - but contingent on NAMA/sectoral reductions being achieved
 - 10+ year maturity
- International financial institution (e.g. World Bank) underwrites green bond issuance
 - underwrite contingent on NAMA/sectoral reductions being subject to international MRV standards
 - mitigate host country/sovereign risk
- Bond issuance subject to international body approval
 - linked to predetermined baselines, standards and methodologies
 - international body (separate to CDM EB) would certify NAMA/sectoral programs/targets (mitigate carbon performance risk)

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Thank you!