Project Developer Forum: Engaging global carbon markets for cost effective mitigation and globally inclusive economic growth

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“Project Developer Forum (PD Forum) is a collaborative association and collective voice of companies and practitioners that are developing and financing greenhouse gas (GHG) projects in all regions of our globe. The accumulation of in-depth technical knowledge and broad experience that our members have with global instruments such as Emission Trading, Clean Development Mechanism (CDM), Joint Implementation (JI), Voluntary Standards and Climate Finance, as well as with country specific projects and NAMAs, make PD Forum a unique platform and stakeholder for discussions around the reform of existing, and the creation of new policies and mechanisms to mitigate climate change.

With this paper PD Forum communicates its perspective, vision, mission and priorities for the development of environmentally rigorous national and regional schemes in the context of the Paris Agreement.

PD Forum’s perspective:

Understanding what makes a climate regime drive investment in a climate friendly direction is key to slowing and ultimately reversing GHG emission growth and building an effective global framework.

As referenced by the IPCC’s 5th Assessment Report, since the year 2000, global GHG emissions have been growing 2.2% per year, close to twice the average rate of 1.3% observed in previous decades. Meanwhile the global carbon dioxide concentration in the atmosphere has exceeded 400 ppm, probably for the first time since 100 000 of years. Within this global trend, GHG emissions of OECD countries reduced slightly on the back of structural change and often expensive domestic GHG mitigation policies, whilst emissions in emerging and developing countries grew rapidly as they have embarked upon their own development trajectory. According to OECD (2013), some member countries are paying up to EUR 800 per t of CO2 mitigated, mostly in the form of feed in tariffs, capital subsidies or other regulations. Meanwhile, there is only limited international cooperation willing to fund important clean investments in emerging and developing countries. In spite of the fact that such investments offer structural long term mitigation at costs far below those of OECD countries, such opportunities are foregone and structural GHG emissions of these countries increase at a rate which outstrips the unilateral mitigation results of developed countries. This is still valid despite the growth of the energy generation capacity is delivered to 2/3 by renewable energy meanwhile. Nevertheless, this means that one third of the capacity addition is still fossil!

This evolution can be explained by the facts that more than 90% of the world’s population growth takes place in emerging and developing countries where energy use grows rapidly from low levels as people are lifted out of energy poverty. With additional immediate challenges in areas such as health and education, these countries lack the capital to provide the large volumes of up-front financing that is necessary to build clean infrastructure, despite the fact that such investments offer many sustainability benefits in the long term. Whilst focusing on more obvious contemporary needs of their societies, developing countries are gradually compromising their future GHG emission trajectory as they undergo structural lock-in with GHG intensive infrastructure which will be expensive to remove and substitute in the future.

Only if the international community can establish a comparable global carbon price and effective market and non-market mechanisms to attract private sector investment, it will we be able to minimize the global cost of climate change mitigation and thus allow increasing ambitions to a level which is in line with limiting climate change to 2°C as agreed on by the Parties.

PD Forum's vision:

Enhanced global cooperation and the rational use of existing tools allow closing the ambition gap and pave the way to an efficient global carbon market.

Based on the imminent necessity to promote early action, the need to develop the foundations for incremental growth in market and non-market mechanisms and the importance of building trust and cooperation between the Parties in order to support the Paris agreement, PD Forum offers its vision as how new solutions can be built from existing mechanisms without further delay.

1) Cost efficiency must be achieved on the basis of global cooperation.

To limit climate change to 2°C at least cost, gradual mitigation in industrialized countries and disconnecting the emission pathway from economic growth in emerging and developing countries are key priorities. To meet these challenges, increased ambition for mitigation in the short term must revive carbon markets to assure continuous private sector engagement and international cooperation.

A fundamental element for any effective regime is to recognize that emerging and developing countries need to expand their economy and address the essential needs of their population. Rapid escalation of GHG emissions in these countries will continue as the development of sub-critical GHG intensive installations is a result of capital constraints and other more immediate social demands. Likewise, it is fundamental to understand that industrialized countries need time for gradual reform of their existing GHG intensive energy infrastructure. Effective global carbon market mechanisms, supported by non-market policies which create enabling environments, address both realities as they engage the private sector in supporting immediate clean growth in emerging and developing countries and promoting a smooth transition in industrialized nations. This approach reduces the economic burden and improves the development prospects for all members of the global community.

2) Ambition for Nationally determined commitments (NDC) can be raised by flexible mechanisms

Everyone knows that the current NDCs are far from what is needed to meet the global target. While industrialized countries have economic wide targets, all the other countries are allowed to have sectoral targets. That is the starting point to raise ambition. Single sectors that are not part of the NDC yet can be encouraged to reduce emissions by external and private finance if the emission reductions of this sector can be transferred for a determined number of years. At the end of the defined period when the emission reduction measures are finally financed the emission reductions can be included in the national budget again and be accounted for the NDC. A clear requisite for this approach is

- The rights in the project that reduces the emissions in the according sector are guaranteed for the pre-determined period for the project developer
- No double counting occurs, that means the emission reductions are added to the national budget as long as the emission reduction units are transferred abroad.

These two simple rules would foster new investment into the developing countries where it is urgently needed.

3) Private finance is not limited to mitigation but may be extended to adaptation

While meeting the global emissions target is essential, climate change is already adversely impacting communities and economies worldwide, and these impacts and their social, environmental, and economic costs will escalate over the 21st century. The incremental investment required to appropriately adapt to rising sea levels, flooding, droughts and other impacts of climate change may grow to $300 billion/year by 2050 in developing countries alone. Yet the public adaptation finance currently committed for these costs is only about $30 billion/year, and private finance is essential to meet the investment gap.

Many adaptation investments may be good business investments, and the private sector is already involved in financing adaptations that address climate exposures to agriculture, energy infrastructure, and supply chains. Yet communities and governments lack sufficient access to capital and other capacities to design and support investments in climate resilient infrastructure, health and disaster management systems, and other climatically exposed sectors, so necessary for community and global security, economic stability, and human livelihoods.

Hence it is imperative that adaptation finance is strengthened with appropriate mechanisms to encourage mobilization of finance from all sources. The Paris Agreement and most NDCs acknowledge this imperative and offer ambitious, but still insufficient provision for finance, policy frameworks, and capacity building of climate adaptation and enhancing adaptive capacity. The Paris Agreement also recognizes the need to mobilize private finance, and identify viable approaches to incentivize private sector involvement in adaptation.

While a variety of mechanisms, most notably carbon pricing, have established clear metrics and incentives for private investment in mitigation projects, there is no similar incentive regime for adaptation. Frameworks for voluntary instruments (such as the climate Vulnerability Reduction Credit) are being promoted as pricing mechanisms for adaptation in order to leverage private finance. The PD Forum supports these efforts and encourages international and domestic resources and policy regimes that stimulate demand for adaptation pricing. Along with enabling environments (technical, regulatory, and capacity building), such initiatives offer a viable avenue to meet the adaptation finance gap so essential for communities and economies around the world facing ever-growing impacts of climate change.

4) Ensure comparability, environmental integrity and fungibility of efforts and results

PD Forum supports the establishment of a global carbon price based on transparent, efficient and reliable mechanisms that ensure environmental integrity and offer the fungibility and long term visibility which are needed to attract private sector investments in any region and sector of the global economy. At the same time, PD Forum supports actions to overcome non-market barriers to the deployment of low carbon technologies. Such actions may support investments on the basis of verified outcomes other than directly measured emission reductions.

An efficient international carbon market needs to establish conditions that allow any agent to develop and implement cost effective mitigation actions, to demonstrate their environmental integrity and then to Measure, Report and Verify results with the option to transfer them to actors which are willing or obliged to finance and acquire such tangible emission reduction units.

The ideal solution for this objective is a global Cap and Trade where emissions of all countries, sectors and installations are subject to allocations which on aggregate reflects our global environmental constraint. With further establishment of a global adaptation pricing mechanism, it may be furthermore possible to extend this fungibility between mitigation and adaptation, in order to more efficiently and holistically allocate resources for the global climate change problem.

Whilst a global cap and trade scheme to ensure that climate change can be limited to safe levels at least economic cost may remain a distant prospect, it is a logical fact that any mitigation action will have to be measured against baselines of different nature and that mitigation results have to be measured bottom up on project and sector, as well as top down on national level. With this necessity in mind, the CDM offers a comprehensive, solid and established tool for the development of project and sector specific baselines, as well as for the MRV of mitigation results. The CDM Registry offers a proven infrastructure to transfer Certified Emission Reductions and to track them from one jurisdiction to another. The current and on-going Review of the CDM and the definition of a Paris Mechanism offer Parties two chances to establish universally applicable and effective mechanisms to facilitate long term climate action by any party or actor.

Our Mission: To develop, inform and implement global and national market and non-market based approaches to promote private sector financing of cost efficient global GHG mitigation.

It is our mission to promote the development and use of transparent and effective mechanisms to Monitor, Report and Verify emissions, emission reductions and adaptation progress as well as the transparent and efficient transfer and use of emission reduction units as instruments to facilitate ambitious commitments and the development of comparable and compatible national, regional and global carbon pricing schemes.

Furthermore, we promote the synergetic use of non-market based approaches in the form of a broad range of nationally appropriate policies and measures to create the enabling environments that are necessary to mitigate regulatory risks, to reduce the cost of financing and to attract private sector investments in low carbon and adaptation technologies.

We understand that the effective development and combination of mechanisms which are transparent, sound and economically effective is the key to reducing the cost of mitigation and adaptation, which is fundamental to increasing governmental ambition and private sector investment.

We emphasize the importance of the private sector and we promote its role and responsibility to engage in GHG mitigation, adaptation and other clean development investments in any region or sector of the global economy, but we also reiterate the necessity for the establishment of reliable and transparent rules, carbon pricing and climate financing instruments by national governments and multilateral agencies, that make sure no double counting can occur.

We offer to engage with any interested stakeholder to contribute with our collective experience and knowledge for the discussion and development of carbon market instruments for companies, subnational and national governments, as well as regional and multilateral organisations.

Given our focus and value as a group of experienced practitioners and investors in the development of GHG mitigation investments around the globe, our primary mission is to engage in technical discussions and exchange in order to make sure that past experiences and insights are valued and understood as a valuable input for the development of contemporary and future policies.