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) emission reduction 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 the Clean Development Mechanism (CDM), Joint Implementation (JI), Voluntary Standards and Climate Finance, as well as with country specific initiatives 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 promotion of early action and development of environmentally rigorous national and regional schemes in the context of a solid international climate policy framework.

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. 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 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. As a result of this effect, the IEA estimates that for each 1.0 USD of foregone mitigation investment in the pre-2020 period an investment of 4.5 USD in the post 2020 period will have to be deployed if the 450 ppm was still to be met.

Based on our understanding of drivers and barriers for clean investments, PD Forum promotes support for early action based on existing mechanisms, as well as their use as foundation for the development of more comprehensive, efficient, transparent and credible global GHG reduction mechanisms at all levels. Only if the international community can establish a comparable global carbon price and effective market and non-market mechanisms to attract private sector investment, 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 achieve an ambitious and solid post 2020 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. In parallel, the fundamentals for a broad, economically efficient and balanced global agreement, where all countries take responsibility under consideration of their individual capability, social necessities and development needs, must be defined and implemented without delay.

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. Without an adequate global framework to support, finance and implement the most sustainable technology mix, 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) Early Action is crucial to minimize future cost of mitigation and build a solid future regime.

Minimizing the build-up of GHG intensive infrastructure before 2020 is not only paramount to safeguard our chances to limit climate change to 2^{o}C, but also to build trust and experience for the future climate regime and to avoid rapidly escalating future costs of GHG mitigation. To ensure that countries and the private sector can engage in swift and comprehensive action now, all available global and national mechanisms, such as the CDM, NAMAs, and climate finance have to be made available. Furthermore, the recognition and eligibility of the mitigation results under the forthcoming climate regime and for meeting future commitments have to be warranted to catalyse anticipative investments. The smooth interaction of mechanisms and the tracking of efforts and results must be ensured through the definition of the Framework of Various Approaches.

If we are capable of building on these existing mechanisms to promote early action, this will not only allow us to perpetuate and expand existing capacities and competencies, but also build trust to develop a more effective, efficient, transparent and reliable global carbon market mechanism for the post 2020 regime that offers broad coverage, low transaction costs and addresses the needs of industrialized, emerging and developing countries.

We emphasize that the combination and seamless evolution of mechanisms to minimize the cost of mitigation today is not only essential to enable all Parties to make increasingly ambitious contributions, but also reduce the cost of mitigation in the future: Continuous failure to prevent the ongoing GHG intensive development in emerging and developing countries is leading to technology lock-in that compromises the global emission trajectory for decades to come and reversal will imply large expenditures and stranded assets. If such high future costs cannot be avoided we fear that they will make future climate diplomacy even more challenging than it is today.

3) Promote economically effective and transparent policy interaction

Continuous deployment of GHG intensive technologies and processes is a result of the combination of several market failures. To be addressed, the effective combinations of policies, incentives and carbon market mechanisms are necessary to overcome the barriers that prevent the implementation of clean alternatives even when they are readily available. While the lack of carbon pricing can solved with mechanisms such as the CDM or outright Cap and Trade, effective climate financing is necessary to overcome the inability of private capital markets to finance clean infrastructure with long amortisation periods. In complement, adequate non-market based approaches, such as domestic incentives and regulations are necessary to create the enabling environment to attract private sector financing and effective project licensing and implementation. Our vision is that diverse existing and emerging national and international GHG mitigation polices need to be combined in a transparent manner in order to target barriers for clean development of all countries according to their domestic needs and capabilities.

For example, the combination of NAMA policies with the CDM and climate finance from multilateral development banks can be a powerful solution to promote transformational investments in developing countries where no private or governmental capital is available and where strong support from the international community is needed to ensure clean economic development.

Now in the case of emerging countries with appropriate financing capacity, large shares of the capital for GHG mitigation can be sourced from the private sector, domestic capital markets and development banks and promoted with national or regional Cap and Trade or carbon tax regulations. As the coverage of such policies will be limited at least at the start, the combination with domestic project based emission reduction mechanism allows focusing on clean expansion as well as broadening a carbon pricing signal to sectors where Cap and Trade coverage is more complex or not feasible. If internationally recognized mechanisms such as the CDM or the future NMM are used for this purpose, this would not only ensure comparability of efforts and results, but also offer the opportunity for efficient and transparent indirect linking with other schemes.

The barriers and challenges to green growth are diverse and specific for each country and case, but with the pragmatic use and combination of available instruments they can be addressed and solved. The CDM, the future New Market Mechanism and NAMAs can help us to describe, understand, quantify and track the result of such solutions and it shall be left to the project's governmental, private and multilateral stakeholders to decide if resulting emission reduction units shall be explicitly counted and used for recognition, voluntary cancellation and contribution to a national commitment or if they shall be used as fungible and traceable emission reduction units to ensure international flexibility.

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. Such a global carbon pricing regime must not only be the ultimate target of international negotiations, but also the guiding principle behind the development of early action and the post 2020 regime.

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 New Market 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 and emission reductions as well 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 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, 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 and 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.

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.

Our Priorities: To promote strategic elements and mechanisms to encourage private sector engagement, enhance early action and to build a comprehensive and efficient global climate policy framework.

To these ends, we call for:

1) Globally coherent pricing of GHG emissions and emission reductions on the basis of transparent and efficient flexible mechanisms that are capable of promoting GHG mitigation activities in any sector, country and region of the global economy;
2) Ambitious commitment of all countries within their individual capability and development needs together with broad international cooperation are essential element for cost effective mitigation and globally inclusive economic growth. To promote such cooperation, an ambitious and transparent global climate policy regime shall ensure flexibility, as well as the integrity and comparability of efforts by tracking and accounting for the flows of carbon units and finance;
3) Recognition that explicit, transparent and effective pricing of GHG emissions and emission reductions is fundamental, but that such policies need to be complemented by effective carbon financing, technology transfer mechanisms and non-market based approaches to structure solutions that are capable of overcoming the multiple barriers that are characteristic of developing countries;
4) The effective engagement of the private sector on the basis of transparent and reliable mechanisms. Private sector engagement is paramount not only because it is the only sector capable of sourcing the necessary long-term finance, but also because it possesses the technology, expertise, capability and innovative capacity that is needed to address the problem in a cost effective manner.
5) The increased ambition of all parties and actors, including ICAO and IMO to promote early action and create demand for CDM based investments under the Kyoto Protocol's second commitment period to promote GHG mitigation investments and prevent further loss of institutional and operational carbon market capacities.

Furthermore,

6) We commend and encourage the recognition and strategic use of the CDM as a policy instrument to encourage and facilitate domestic GHG mitigation by developing countries. The generation, use and cancellation of Certified Emission Reductions by host countries reduces mitigation cost and ensures comprehensive MRV of results;
7) We call for the Green Climate Fund, National and Multilateral Development Banks and private capital markets to make strategic use of the CDM, the upcoming NMM and national policies and mechanisms to attract and leverage private sector investments and innovation to ensure transformational investments with tangible and measurable GHG mitigation outcome;
8) We promote the synergies between investment in low and no carbon technology and a wide range of sustainable development benefits including energy independence, employment, health and environment
9) We promote the development and recognition of voluntary markets and instruments as a strategy for countries and companies to undertake and track efforts that anticipate or exceed regulatory requirements. Though we favour the use of UNFCCC recognized instruments for such purpose we recognize the importance of complementary voluntary

mechanisms, as long as they have the same level of host country endorsement and tracking of units as offered by UNFCCC mechanisms.

10) We emphasize the necessity to recognize and promote early action to avoid further technology lock-in and avoid high costs in the future. To meet this objective a full recognition of mitigation results achieved on the basis of the existing Kyoto Mechanisms and their evolution and integration under the future international climate policy framework is required.