# On lessons from the carbon markets

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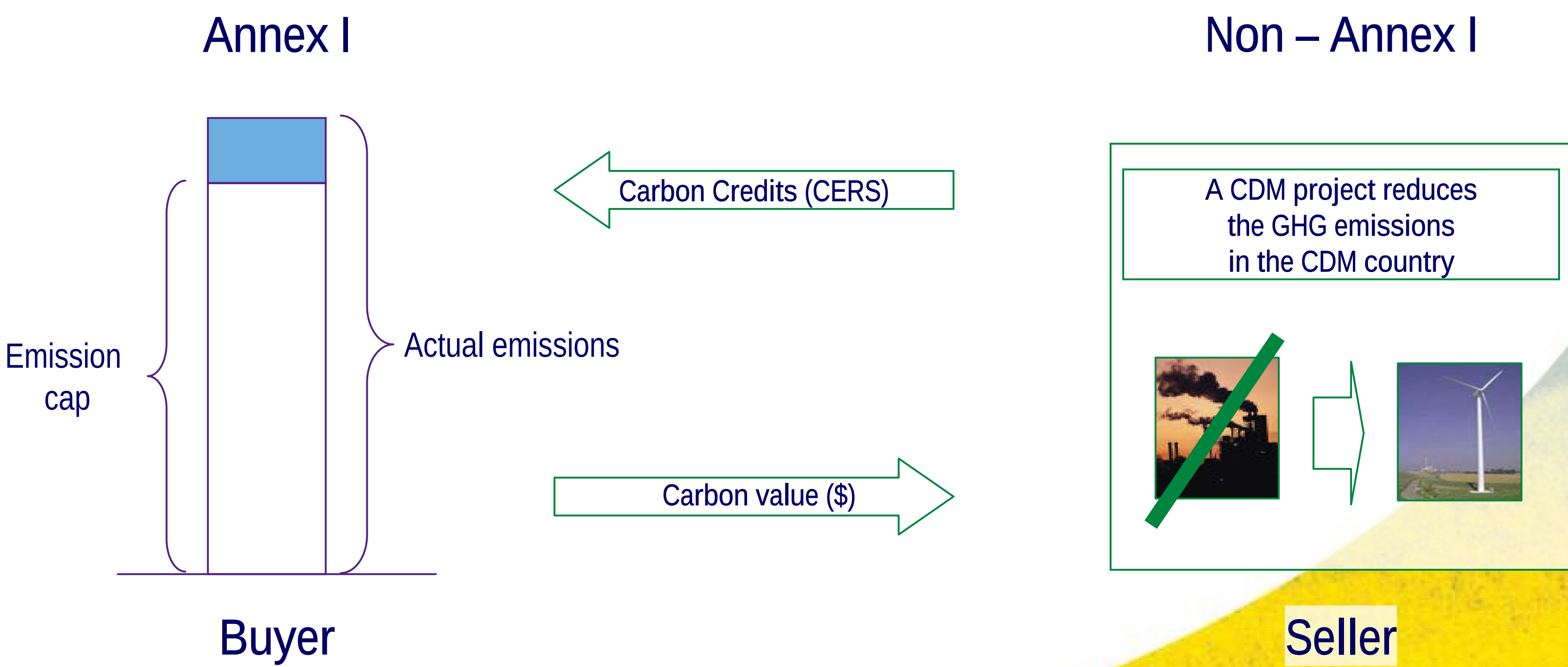
# The Kyoto protocol

## The reduced GHGs in a Non–Annex I countries can be sold to an Annex I country: an ‘offsetting’ system



# 1. Carbon markets contribute to a paradigm shift on climate change

- Rio 1992 and Kyoto 1997 set the stage, but the start of large-scale trading in 2005 really brought climate change into the centre of attention
- Now climate change, CC policy and carbon markets are fully discussed in the media and at dinner tables
- Emissions and emission reductions (carbon neutrality, food miles) have become a mainstream part of our thinking
- Rapidly developing voluntary carbon markets are reflecting changes in choices by individuals and corporates

# 2. Political will (i.e. commitments) determines scale of activities

- Without the Kyoto quantitative commitments we would only have seen a fraction of the emission reductions we see today
- Creating a credible demand for emission reductions and clear rules of engagement enabled private sector participation and investment
- Offsetting is the only biodiversity market with the potential to be scaled up by policy decisions.

- If we are serious about creating incentives for the private sector to protect biodiversity we need to think LARGE SCALE!

# 3. Private sector is main implementer of activities, but needs clear incentives (1)

- A few voluntary pilot projects here and there are not going to change our overall behaviour.
- We need quantitative, top-down commitments by governments (unilaterally or as part of international agreement), which they may or may not transfer to industry
- Clear product definition and rules of engagement
  - ‘Offsetting’ system: define negative and positive activities
  - Quantitatively define equivalence between ‘offence’ and ‘offset’
  - This is difficult for biodiversity, but not impossible

# 3. Private sector is main implementer of activities, but needs clear incentives (2)

Demand side (‘Offenders’)

- Quantify ‘offence’ using national, industry-wide or company ‘footprints’, then set offsetting targets. CBD (or EU?) could provide methodological guidance for biodiversity footprints.
- ‘Biodiversity Unit’ could be dimensionless, but quantified using ‘scoring’ based on criteria such as areas and habitats affected, level of threat, presence of flagship species
- EIA methodologies could provide some guidance

# 3. Private sector is main implementer of activities, but needs clear incentives (3)

<u>Supply side</u>

- Quantify ‘offsets’ using the same scoring based on criteria such as areas and habitats affected, level of threat, presence of flagship species. This results in ‘Biodiversity Units’ per activity
- ‘Additionality’ is important criterion.
- International fungibility of Biodiversity Units is desirable:
  - ✓ Facilitates investment to developing countries
  - ✓ The more fluid the market the better the incentive for business

# 3. Private sector is main implementer of activities, but needs clear incentives (4)

Still a long way to go, but a start needs to be made!

Needed:

- Political will for quantitative offset commitments
- Acceptance that the start will be far from perfect

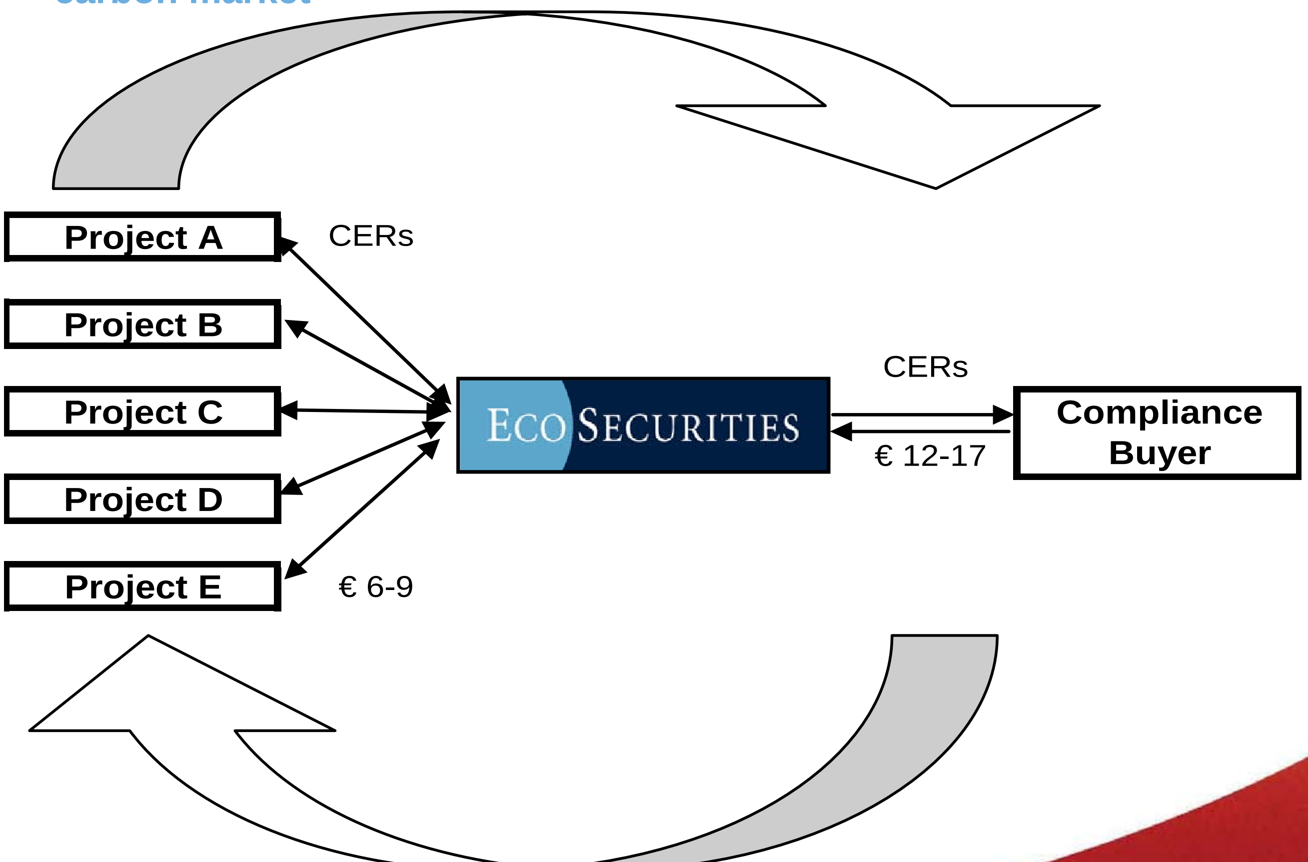
Lesson from carbon market: Methodologies and data will become better as the market matures

# 4. The private sector's role in facilitation, tech transfer and capacity building

- Investors! Important because offset sales happen only after verified achievements
- Brokers
- Aggregators
- Technology providers
- Consultants

# Case study of an aggregator: EcoSecurities

**EcoSecurities is a leading originator and aggregator of carbon credits in the global carbon market**



# EcoSecurities' portfolio

Carbon Credit portfolio at 5 September 2007 comprised of:

- **456** CDM projects
- Projects have the potential to generate over **142** million CERs
- **44** voluntary projects
- Projects have the potential to generate over **4.3** million VERs

# Facilitating ERPAs, Financial Services and Investment to Projects

## EcoSecurities and other intermediaries are instrumental for the success of the CDM

- **Projects can show an Emission Reductions Purchase Agreement to prove cash flow to investors**
- **EcoSecurities facilitates CDM certification at no cost**
- **EcoSecurities can provide seed capital to projects**
- **EcoSecurities can directly invest into (parts of) projects or facilitate investment**
- **Specific advisory services**

# 294 projects under construction as of 5 September 2007

# 145 projects operating as of 5 September 2007

ECO SECURITIES

# 5. Synergies between carbon and biodiversity markets

- **Reforestation, Avoided Deforestation and Peatland management activities can benefit both the climate and biodiversity**
- **The project structures developed by the Kyoto Protocol could be used to access finance from both emissions and biodiversity offsetting**
- **This facilitates cost-efficiency in:**
  - **Project design documentation**
  - **Certification and verification**
  - **Monitoring**

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# Main lessons from the carbon markets

1. Carbon markets contribute to bringing about a paradigm shift on climate change
2. Political will (i.e. commitments or allocations) determines <u>scale</u> of activities
3. Private sector is main implementer of activities on the ground, but needs clear incentives
4. Private sector's role extends into facilitation and capacity building
5. There are many synergies between carbon markets and biodiversity offset markets

Thank you!

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