UNFCCC-ADB-IGES: Asia Pacific Regional Workshop

ROLE OF PRIVATE SECTOR IN RAISING AMBITION FOR POST-2020

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(A) ASSISTANCE TO THE PRIVATE SECTOR AS AN INCENTIVE TO INCREASE THE SECTOR'S CONTRIBUTION TO GHG MITIGATION

Misconception about the Private Sector

1) It is well recognized that GHG mitigation measures expecting a yield below a company's hurdle are unlikely to be undertaken by the private sector.

2) This acknowledgement has led to the mistaken notion that the reverse is also true. There is a widely held misconception that private sector GHG mitigation actions will be implemented without assistance when their profitability is above a company's hurdle rate. This is not correct due to additional obstacles.

Additional Obstacles to Private Sector Contribution to GHG Mitigation

- 1) For most companies, the availability of equity and/or debt finance is limited. Priority is given to investment that contributes to increasing sales and enhancing competitiveness.
- 2) Availability of management and staff resources constitutes an additional constraint.

Additional Obstacles to Private Sector Contribution to GHG Mitigation - continued

- 3) Some GHG mitigation actions involve other problems (e.g. need to stop factory operation for process change, which leads to a loss of market share.)
- 4) Thus, one of the following factors or some combination of them must be present in order for a GHG mitigation activity to be undertaken by the private sector.

Prerequisites for Private Sector GHG Mitigation Action

Factor 1: The action is mandatory;

<u>Factor 2</u>: The action offers some benefits from the business point of view (including improved reputation/image) and is worth implementing if incentives are offered to compensate for obstacles 1) - 3.

(This was the case for the majority of CDM projects.)

Prerequisites for Private Sector GHG Mitigation Action

<u>Factor 3</u>: The activity is financially attractive enough when the incentive is taken into account. (Destruction of high GWP industrial gases was the typical example of this case.)

Required Financial Assistance to the Private Sector

1) With the current state of the CDM, Factor 2 in a previous slide is no longer available.

2) This is aggravated by the continued problem about the lack of funding for initial investment, as shown in the next slide.

3) These problems need to be rectified to create an environment conducive to active private sector participation in raising post-2020 ambition.

Private Sector Financial Needs for GHG Mitigation Activities

		Availability of financing for initial investment costs	
		Available	Not available
Profitability	High enough to compensate for the problems	Case I: Can be implemented on a business-as-usual basis	Case II: Often the key problem for mitigation actions → need for upfront financing. Cannot be resultsbased.
	Insufficient → needs annual supplementary income to be viable	Case III: Used to be filled by the CDM with its practice of payment against delivery. Can be results-based, but needs to be subsidies not loans.	Case IV: Difficult. Must have either high social value or involve mitigation of high GWP gas (such as methane).

(B) ROLE FOR MARKET MECHANISMs TO PLAY POST-2020

Role of Market Mechanisms for Post-2020

- 1) It is recalled that the early days of the CDM involved heated debate about "command and control" vs. "market-oriented approaches (such as the CDM)".
- 2) For post-2020, no such comparison is meaningful between INDCs and market mechanisms. Market approaches will be adopted only as a tool for achieving INDCs.

Will Market Mechanisms Help Private Sector for Post-2020?

- 1) It is widely believed that domestic emissions trading will be helpful.
- 2) But it seems uncertain that market mechanisms will have a meaningful role to play post-2020 for international transfer of funds to the countries that require international assistance for the implementation of their INDCs.

Will Market Mechanisms Help Private Sector for Post-2020?

- 3) It is to be acknowledged that market mechanisms have worked for cross-border funds transfer only under three circumstances.
 - Case 1: The CDM for which the seller countries have no mitigation obligation.
 - Case 2: JI for which the seller countries have sufficiently large surplus allocations.
 - Case 3: EU ETS which is in effect a domestic ETS.

Will Market Mechanisms Help Private Sector for Post-2020?

- 4) None of these cases applies to the post-2020 arrangement currently contemplated, rendering avoidance of double counting a daunting task.
- This is believed to be further discussed in group discussions on Day 2 as Topic 3 "How to recognize transferred mitigation outcomes towards country contributions for post-2020?"

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