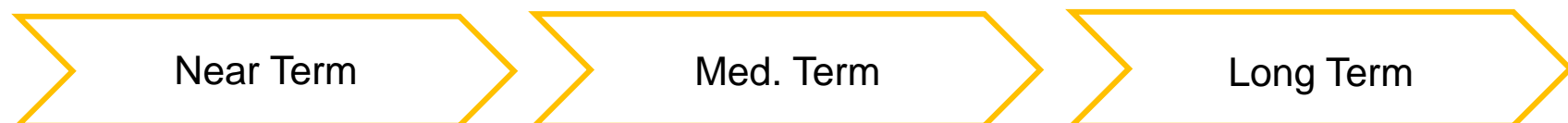


## Developing the Carbon Markets: *Overview of Phased Approach*



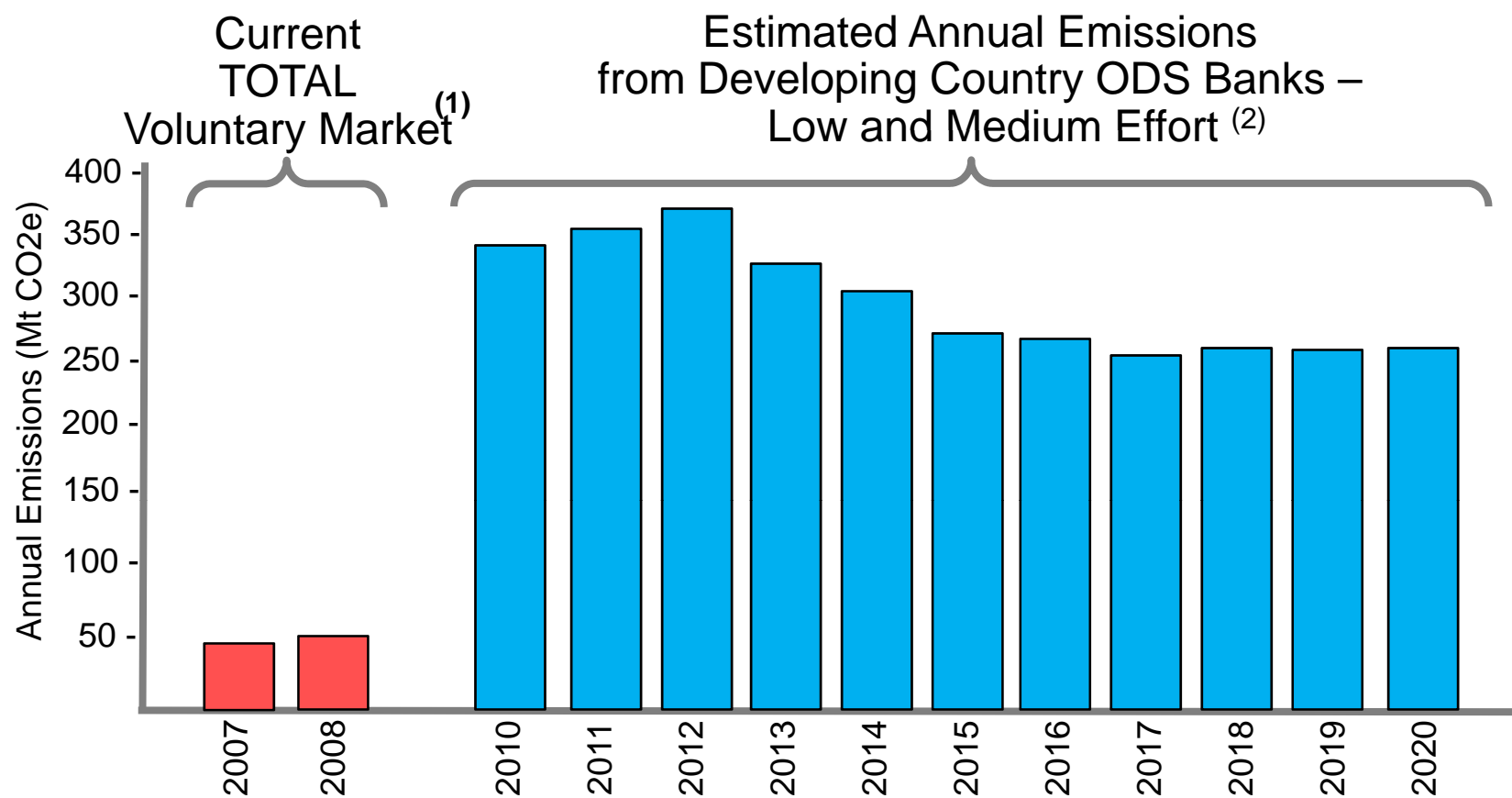
Key Model

- |   |  |   |
|---|--|---|
| <ul style="list-style-type: none"> <li>• Voluntary carbon markets               <ul style="list-style-type: none"> <li>• Limited number of pilot projects (incl. 'resource mobilization' projects)</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• ODS Climate Facility               <ul style="list-style-type: none"> <li>• Donor-led fund to ensure demand and purchase credits</li> <li>• Oversight framework to ensure quality and avoiding perverse incentives</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• Link to demand from the compliance carbon markets</li> </ul> |
|---|--|---|

Comment

- |   |  |  |
|---|--|--|
| <ul style="list-style-type: none"> <li>• Concerns regarding long-term suitability of voluntary markets as a financing source for ODS               <ul style="list-style-type: none"> <li>• Quality</li> <li>• Price</li> <li>• Demand</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• Objective is to give market and policy-makers confidence in high quality ODS credits</li> </ul> | <ul style="list-style-type: none"> <li>• Cost of financing ODS climate benefits now fully internalized into 'capped' economies</li> <li>• This phase is only pursued if ODS Climate Facility regarded as successful</li> </ul> |
|---|--|--|

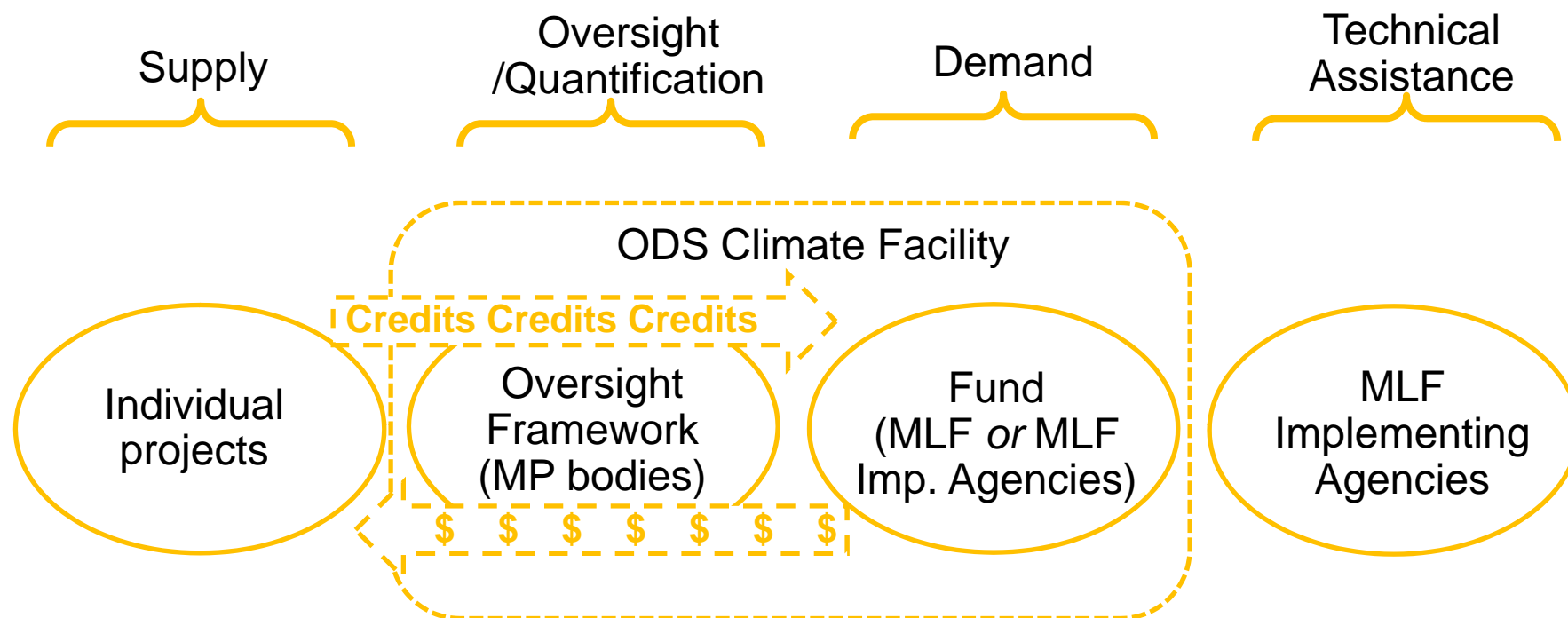
## Voluntary Markets Concerns: *Supply/Demand*



The voluntary market is unlikely to be able to absorb the supply of ODS credits.

Source: (1) State of the Carbon Markets 2009. Project -based voluntary carbon markets; (2) TEAP Decision XX/7 Report , Phase 2. Combined 'Total Appliances & Foams' and 'Other Refrigerants' categories

## ODS Climate Facility: *Potential Architecture*



Architectural components of ODS Climate Facility addressed in issues paper:

- Possible structural configurations
- Fund's investment approach
- Oversight framework
- Project types
- Co-financing
- Timing

## ODS Climate Facility: *Considerations for ExCom*

### The ODS Climate Facility in a 'Nutshell'

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- A facility to develop and establish the compliance carbon markets as the source of financing for ODS climate benefits. It recognizes that the voluntary carbon markets may not be sufficient.
  - Precedents exist, e.g. UN-REDD; Prototype Carbon Fund (CDM)

#### For Donors

- It is not an open commitment to fund all future costs of ODS climate benefits
- It is a limited fund to 'prime the pump', with the aim that the compliance carbon markets will subsequently finance ODS climate benefit costs
- The fund will cover the climate benefit cost of a defined number of high quality, diverse demonstration carbon projects. Payment from the fund will be incremental-cost based, in the form of the accounting units of carbon credits

#### For A5 Parties

- It will not require mandatory participation
- It is an optional, non-obligatory, mechanism, similar to the CDM, whereby projects in A5 Parties can freely choose to fund activities through this financial incentive