

# PMR in Developing Countries

## *A bottom-up view*

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- Motivations & Opportunities
- Scaled up CDM, Cap and trade, hybrid systems, pollution taxes could theoretically work
- Some thoughts on fundamentals
- Key concerns from perspective of regulated communities
- “Equity”
- “Enforcement”

# Motivations are clear

- CDM + New Market Mechanisms --Almost all of the submissions of the Parties on NMM in post 2012 regime maintain CDM, contemplate NMM as complementary – (important for investor confidence)
- CDM is important but insufficient for mitigating with the velocity necessary to achieve IPCC climate targets
- New Market Mechanisms to stimulate wider actions and investments in sectors not effectively addressed by CDM
- NMM to reduce the enormous transactions costs burden and long bureaucratic delays associated with CDM reductions
- Move international and domestic capital towards efficient low carbon investments in a rapid and

# Some thoughts on fundamentals

- Emissions tax would work, but can be very costly in terms of total cost, taxes tend to generate powerful political resistance, focus on trading options. Ample experience with Pigouvian taxes in Colombia on water pollution provides many lessons.
- Domestic Cap and Trade – fixed quantity cap, floating price, hitting “desirable price range”
- Domestic Cap and trade will require strong enforcement, strong and stable institutions, excellent MRV, excellent technical capabilities
- **Requires the imposition of compliance on emitters :**
  - In developing countries, private sector are often politically stronger than environmental institutions
  - *Do we want to impose a confrontational system with the regulated sectors?*

- Domestic Cap and Trade requires a strong, relatively stable, long term PRICE SIGNAL. Investors/emitters need clear market price signals to make appropriate financial decisions.
  - *Can a domestic system generate these price signals?*
  - *Can the domestic market become large enough fast enough,*
  - *will there be enough transactions to generate clear price signals in spot and futures markets?*
  - *Will the system be stable enough from the regulated sector perspective to create confidence in the price incentive in the medium to long run?*

- Domestic cap and trade requires that **significant differences in marginal abatement costs exist among the participating emitters** – *does that significant difference exist?*
- If differences in MAC exist, has the sectoral MAC curve been studied with a view to the related costs of technological change?
- If so, **what is the carbon price range you need to generate** in order to push the regulated sector up the MAC curve towards the sectoral target?
- Can the market produce this price range in a stable and long term fashion, or *will you have to resort to punitive measures to force compliance? Are you willing to go down that road?*

# Big advantages in linking to established international carbon markets – EU ETS, Japan, New Zealand, California.....

- Take advantage of established international ET markets with strong institutions and clear price signals ,already developed.
- This approach **relies more on price incentives than on enforcement and punitive compliance measures** to achieve sectoral targets
- Major international markets – ETS – face rising internal MAC s as they take on more ambitious targets and depend on international supply of credits for the future:
  - to control internal costs of compliance and ensure international competitiveness for their regulated productive sectors
  - This supply could come from linked domestic program s in developing countries and selective CDM

# MRV

- MRV can be done well in these developing countries.
  - Requires concerted negotiations with regulated sectors
  - Technology and know - how exist
  - CDM experience has produced a great deal of learning by doing

# Where is the comparative advantage in your economy?

- One would want to set up a system with a good possibility of success, given the national circumstances
- Do you have low cost renewable energy on your grid (even with future climate change), that you could move fossil based sectors towards?
- Are there relevant new technologies available to introduce into the sector in a cost effective fashion?
- Do you have a strong R&D system that can support the regulated communities in identifying practical cost-effective abatement options?
- Do you have a robust technology transfer mechanism in place?
- Do you have a low cost, easily accessible financing system in place that regulated community can access to finance clean production investments?

# Equity Issues from the regulated sectors' perspective

- From the perspectives of regulated communities in many developing countries that these programs will eventually confront:
  - Their economies often can be INSIGNIFICANT emitters in comparison with mega emitters from US, Europe...have not been significant contributors to climate change over time
  - Today are suffering huge impacts and costs from extreme weather events and climate change
  - They see the priority of their countries in terms of adaptation, not mitigation
  - They see domestic GHG regulatory controls as inequitable, as not making any difference in climate change
  - They feel that they will be forced into higher costs of production , and they have to compete internationally with larger countries that have rejected GHG controls

# Equity and relative power

- In many countries, the regulated private-productive sector is often politically stronger than the regulatory institutions
- We need to take this into consideration when we design our systems.
- The most important issue, for me, is to design, negotiate, implement and operate these systems in a carefully concerted fashion with the targeted emitting sectors. Otherwise the systems could face failure in the medium term.
- This is hard for regulators.

# Enforcement

- (This word does not exist in spanish.)
- A domestic cap and trade system requires strong, long term enforcement capabilities that many developing countries simply do not have :
  - Imposition of high fines.....?
  - Imposition of severe penalties.....?
  - Closing non compliant plants.....?
  - Jail time for managers.....?

- Trading systems that are linked to established international GHG trading markets can produce a system that is:
  - based more on price incentives than on local enforcement
  - Rely on strong demand and price signals that produce more confidence in local investors/emitters
  - More acceptable to the regulated community/sector.
- How to link?
  - NAMAs that generate credits that can be used for compliance in countries with UNFCCC targets (lets wait and see....)
  - Bilateral negotiations with countries that have established ETS – EU ETS and would be interested in supporting the program

# Final thoughts...

- We want to design the programs for success, always taking into account the domestic circumstances
- Design the system hand in hand with the regulated sector to reduce potentially fierce resistance
- Build on comparative advantages that the country has
- Know where you want to push the sector in terms of abatement options
- Create an enabling environment in terms of

Thanks very much.