Towards a new form of when flexibility to untie the Climate-Development Gordian Knot

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Role of carbon pricing mechanisms in financing a sustainable transition to a low-carbon society

IC4 – ICTS - ICTSD
Prices and finance in the Paris Agreement a symptom of North-South Misunderstandings?

• **Article 2 of the Agreement**: “aligning financial flows along a new trajectory of global economic development consistent that leads to low levels of greenhouse gases emissions and high level of investments in climate-resilient development»

• **Para 136 of the Decision** notes the importance of carbon pricing but only “applies to “non-party entities” and is not binding upon Parties to the Convention

• **Article 108 of the decision**: recognizes the social, economic, and environmental value of mitigation activities and their co-benefits to adaptation, health, and sustainable development” (hereafter SVMA)
Changing the possibility spaces

- The ‘risk’ component is critical to do so
  - to increase the number of economically viable LCIs,
  - to de-risk the ‘decarbonisation’ movement of institutional investors
  - attracts ‘savers’ thanks to financial products based on a new class of assets ...

- The commitment of States needed with the maximum efficiency of the use of public funds: **public guarantees** (cf. the railways)

- Mind the **risks of political arbitrariness! SVMAs needed**

- Building confidence through **a Multisovereign Guarantee Mechanism**
The two sources of a new form of when flexibility

- **The differences in valuation of the avoided emissions**
  - The *domestic SVMA* necessarily linked to the specific conditions of a country
  - The *world SVMA*: the value attached to avoided emissions in any country

- **The spreads in interest rates due to differences in ‘credit rating’ (AAA) rated countries** cover risks in BBC countries ... and the 60+ unrated

- **The heterogeneity of the world is no longer an obstacle like in the case of a unique price of carbon ... but an opportunity**
Putting the ‘right value’ on long term infrastructures (World SVAM)

<table>
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<tr>
<th>Discount rate</th>
<th>Technological pessimism path</th>
<th>Technological optimism path</th>
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Domestic SVMA and Domestic Prices: the Indian Case

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<th>2020</th>
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<td>Indian SVMA</td>
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<td>Explicit carbon prices</td>
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<td>$SVAT^{10}$</td>
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</tr>
</tbody>
</table>
Articulating two leverage effects

- Low Carbon Projects
- Cash Loans
  - + CRAs
  - Green Bonds Low interest rate
- Developing Economy
  - $ to Investors
  - Coupons
- Investors
  - Confidence of Bond Markets
- Certification Agency Issuance of the CRAs
- Avoided GHGs emissions
- Guaranteed value/ton based on the Domestic and World SVMA, corri
- Advanced Economy
  - Paid-in capital
- Multilateral Guarantee Fund
Creating the Enabling Conditions for Rising Carbon Prices

- Lowering risk-weighed capital costs -> more projects for a given explicit carbon price
- Treasuries of all countries are interested in raising carbon prices to enhance the value of ‘Climate Remediation Assets’
- An Club of willing countries formed around coordinated sovereign guarantees could discuss the enabling conditions of increasing carbon prices in host countries
- Guarantees + SVMAs + explicit carbon prices constitute a ‘Positive Pricing’ approach
- NON NEGLIGIBLE: THE ACCESS TO CLIMATE REMEDIATION ASSETS MIGHT BE THE ONLY WAY TO OFFER A WAY OUT COUNTRIES and REGIONS ‘SIT’ ON CARBON ASSETS
To know a bit more

• Sirkis Alfredo et al; : *Moving the Trillions*, a debate on Positive Pricing of Mitigation Action 2015
