south pole
Carbon Asset Management Ltd.

Role of Carbon Market to Support Finance for Mitigation Action

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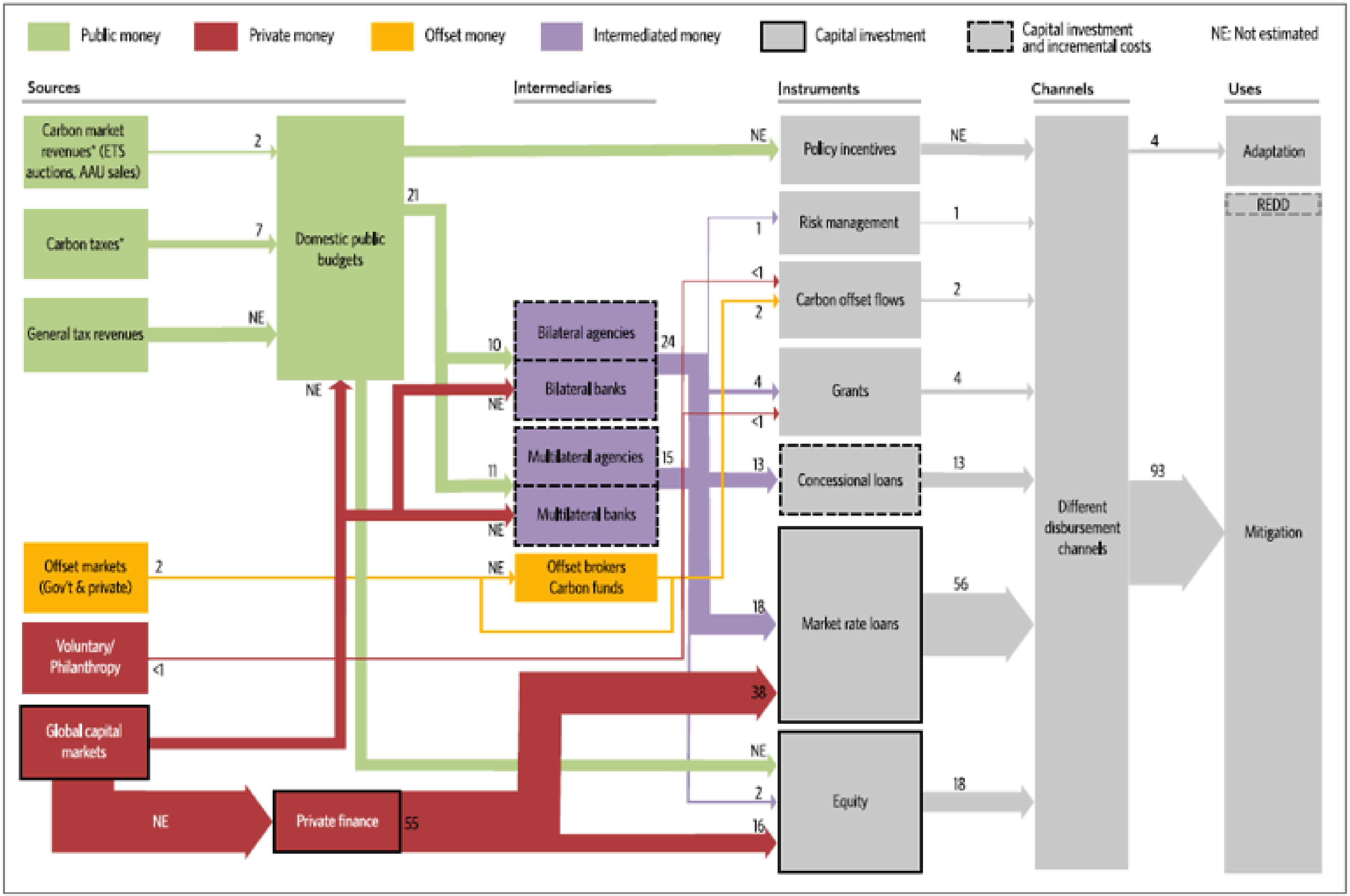

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- Carbon Markets ensure Accounting for Results:
  - Internationally approved calculation methodologies and additionality test
  - Transparent Monitoring and Verification
  - Registry / transaction procedures
  - Domestic embedment (LoAs, stakeholder consultations)

- Carbon Markets leverage private capital flows:
  - create incremental revenue streams to bring projects above threshold
  - Reduce risks for investors
  - Allow for broader participation in climate finance

-> Maximize the leverage of public funds to unlock the flow of private funds

Current Situation and Need for Action

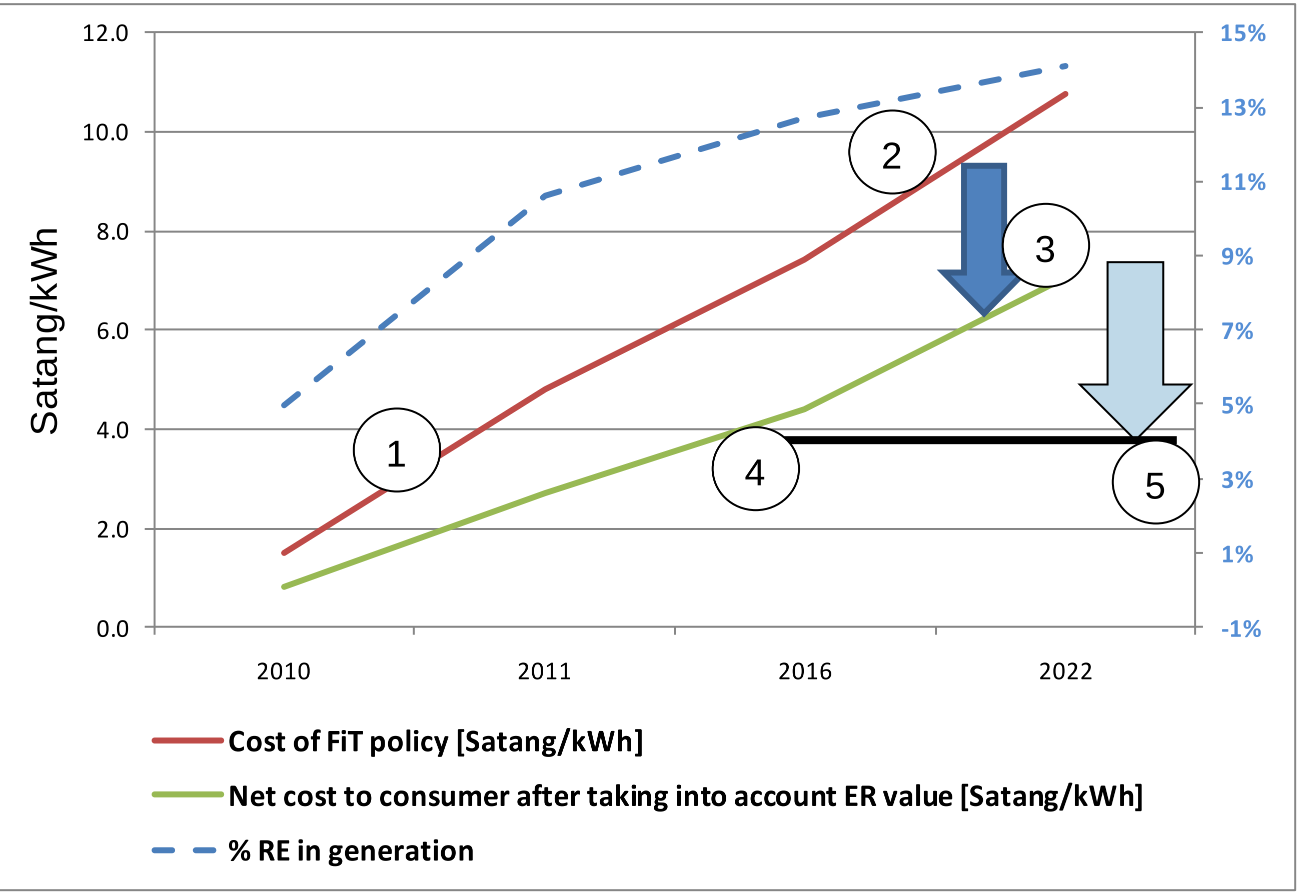
- Carbon Markets are about to fail:
  - Leverage of carbon markets is about to disappear.
  - Outlook is uncertain and limited
  - Loss of institutional capacity of the market
  - Project developers: “Once bitten, twice shy”

- Carbon market mechanisms are vital to bring developing countries into a future agreement:
  - discover lowest cost mitigation actions
  - reduce the costs of own low carbon development strategy
  - Projects / programmes alongside ETS

-> Creation of new demand is essential
aligned with scaled-up mitigation action in countries that consider own targets.

How could this work?
Example: Renewable Energy in Thailand

The rationale for intl. support (i.e. designed as premium on CER prices) is based on the idea that intl. supporters pick-up incremental cost that exceed an “appropriate”/”ambitious” cost to the local consumer (taking into account the financial leverage of current carbon prices).



1. Developing country electricity consumers start to fund the cost of RE promotion.
2. Cost/kWh increase with increased RE share.
3. Sale of carbon credits under scaled-up approach reduces pass-through cost to elec. consumers
4. Intl. support kicks in as soon as the adtl. cost to the consumer exceeds an “appropriate” level (support payments could be “attached” to carbon credits (i.e. as premium))
5. Intl. support facilitates increasing share of RE above a TBD domestic target level.
6. Carbon credits are used to track financial flow and results
7. Carbon credits are shared between host-country and supporter (bankable towards future targets)

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