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

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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***

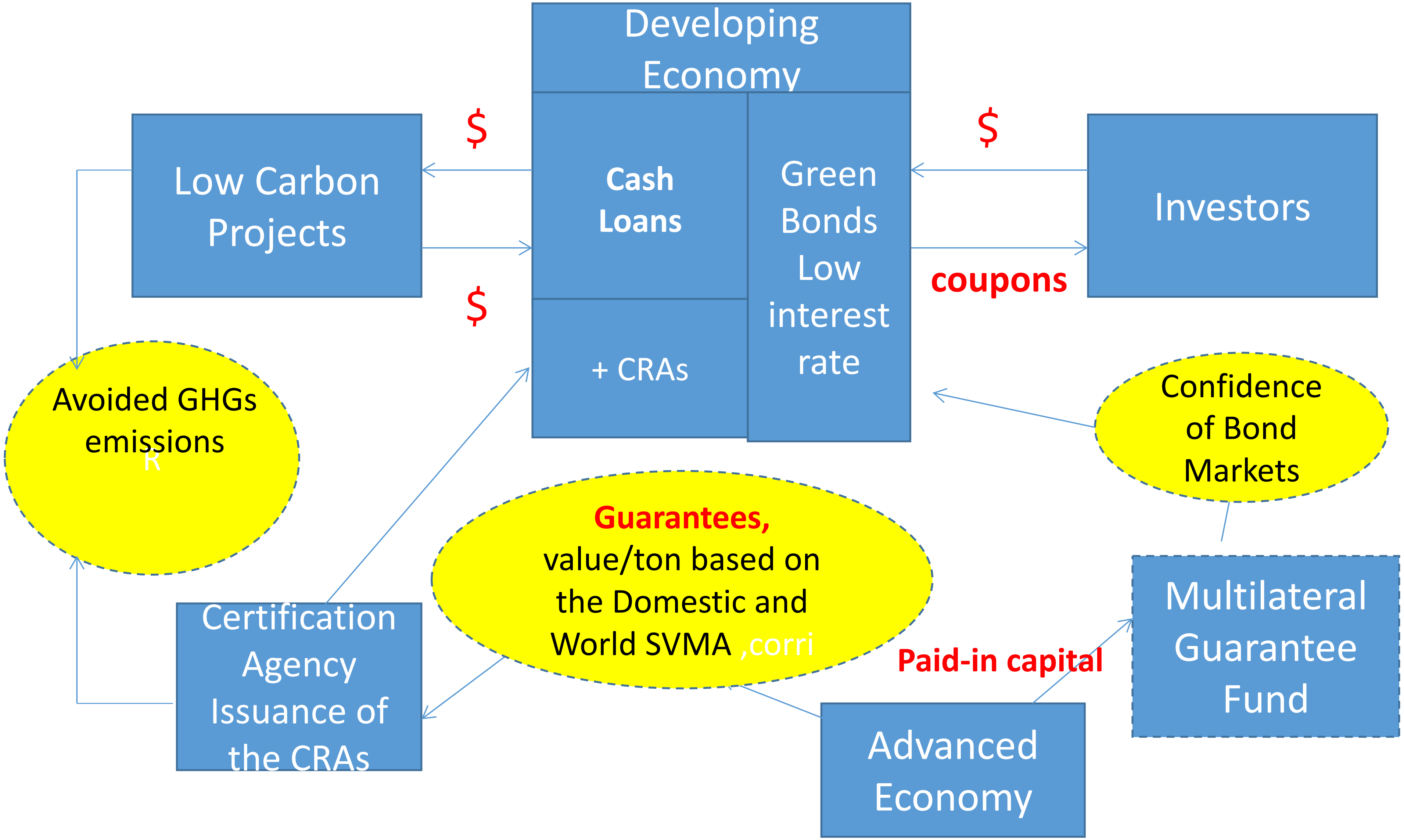
Putting the 'right value' on long term infrastructures (World SVAM)

	Technological pessimism path		Technological optimism path	
Discount rate	5%	2%	5%	2%
T=10	73,50	87,25	36,66	43,24
T=20	75,76	104,71	36,54	50,20
T=30	72,26	115,34	35,56	56,96
T=40	68,82	127,50	34,34	64,22

Domestic SVMA and Domestic Prices: the Indian Case

	2020	2030	2040	2050
Indian SVMA	20	50	70	105
Explicit carbon prices	3	10	18	30
$SVAT10$	25,51	46,76	67,98	81,08
$SVAT40$	19,96	29,76	37,08	40,35

Articulating two leverage effects



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 sovereing 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
- Aglietta, M., J.-C. Hourcade, C. Jaeger, and B. P. Fabert, 2015: *Financing transition in an adverse context: climate finance beyond carbon finance*. ***Int. Environ. Agreements Polit. Law Econ.***,
- Hourcade, J.-C., P.-R. Shukla, and C. Cassen, 2015: *Climate policy architecture for the Cancun paradigm shift: building on the lessons from history.* ***Int. Environ. Agreements Polit. Law Econ.***