

Innovation in Green Financial Products and Services for Carbon Markets



Focus

- We analyzed core features of the new green finance phase and explored ways for carbon markets to drive green tech innovation, using a green premium framework.
- We examined capital transfer mechanisms through which carbon markets enable green tech innovation and explored how different carbon trading schemes support the innovation chain.

Findings

- ✓ Traditional green finance mainly focuses on ensuring companies pay for the pollution they cause. As the green transition changes what drives economic growth, green finance policies also need to evolve, with more focus on supporting green technology innovation, including ways to reward the wider benefits that innovation creates.
- ✓ Whether carbon markets effectively enable green tech innovation depends on establishing capital transfer from high-carbon industries to innovative sectors via two channels: redistributing revenue from carbon allowance auctions and direct trading between high-carbon and green industries.
- ✓ Carbon market funding provides insufficient support at the research and development stage. The EU Emissions Trading System uses money raised from carbon allowance auctions to build an Innovation Fund, which helps reduce the financial risk of launching new green technologies in the market.
- ✓ China's carbon market is based on allowances too, but it can use China Certified Emission Reductions (CCERs) and similar tools to support green projects at the commercial deployment stage as they scale up. Similarly, California's Zero-Emission Vehicle credit system directly encourages the mass rollout of electric vehicles.

Recommendations

- 1 **ESTABLISH** a support system funded by carbon auction revenue that covers every stage of innovation. It should incorporate a minimum revenue guarantee mechanism, performance evaluations for both non-repayable and repayable support, and a blended model combining grants with repayable financing.
- 2 **CREATE** a dynamic adjustment mechanism for CCERs with clear criteria for adding and phasing out offset project types, set an appropriate offset ratio, and provide targeted support for commercially ready zero-carbon technologies.
- 3 **ALIGN** carbon allowance allocation reforms with financial markets and unlock channels for carbon asset value realization. This will strengthen incentives for green innovation and improve funding for the transition of high-carbon companies.

