

# **Market Mechanisms in the Paris Agreement: International Linkage under Article 6.2**

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# Key Challenge for Eventual Success of Paris Agreement

- Can Paris Agreement, with INDCs *anchored* in domestic political realities, *adequately* address emissions with sufficient ambition?
- Are there ways to enable and facilitate *increased ambition* over time?
- **Linkage of regional, national, and sub-national policies can be part of the answer** – connections among policy systems that allow emission reduction efforts to be redistributed across systems
  - Linkage is typically framed as between cap-and-trade systems...
  - ...but national policies will be *heterogeneous* under the Paris regime
  - Linkage between *different types* of policy instruments may be feasible

# Linkage and the Paris Agreement

- **Merits**

- Can achieve *cost savings* (if marginal abatement costs are heterogeneous)
- Can improve functioning of individual markets
  - Reduce *market power*
  - Reduce total *price volatility*
- Can allow for UNFCCC's CBDR *without* sacrificing cost-effectiveness

- **Concerns**

- *Distributional impacts* within jurisdictions (winners and losers)
- *Automatic propagation* of some design elements
- Decreased *autonomy*

- **Paris Agreement provides for Linkage in Article 6**

- Emissions reductions occurring outside a nation can be counted toward achieving NDC via *Internationally Transferred Mitigation Outcomes* (ITMOs) [Article 6.2]
- Enables formation of “clubs,” and *bottom-up heterogeneous linkage* (not just government-to-government AAU trading, as in Kyoto Protocol Article 17)

# Heterogeneous Instrument Linkage (under Article 6.2)

- **Heterogeneous Instruments** (Metcalf & Weisbach 2010)
  - Cap-and-Trade with Cap-and-Trade
  - Cap-and-Trade with Tax
  - Cap-and-Trade or Tax with Performance Standard
- **Heterogeneous Jurisdictions**
  - Regional -- National -- Sub-National
- **Heterogeneous INDC Targets**
  - Hard (mass-based) emissions cap
  - Rate-based emissions cap (per unit of economic activity or per unit of output)
  - Relative mass-based emissions cap (relative to BAU)
  - Other, non-emissions caps, such as penetration of renewable energy sources
  - No cap

# Key Questions/Issues

- For Research

- Which linkages are *feasible* among the set of instrument-jurisdiction-target combinations?
- Are some types of feasible linkages *not desirable*?
- What *accounting treatments & tracking mechanisms* are necessary for various types of linkages?

- For Negotiations

- *Develop* necessary accounting procedures & mechanisms
- How will ITMOs be *tracked* to avoid double counting?
- Will the UNFCCC provide *oversight*?

# For More Information

Harvard Project on Climate Agreements

[www.belfercenter.org/climate](http://www.belfercenter.org/climate)

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