

# A club — or coalition — of carbon markets

Nat Keohane

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# Preview

- What does the Paris Agreement say on markets?
  - What is the role for the UNFCCC going forward?
  - How could a “minilateral” club approach help?
  - What if all we can get is a coalition?
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# Markets in the Paris Agreement (1/2)

## Article 6

2. Parties shall, where engaging on a voluntary basis in cooperative approaches that involve the use of internationally transferred mitigation outcomes towards nationally determined contributions, promote sustainable development and ensure environmental integrity and transparency, including in governance, and shall apply robust accounting to ensure, inter alia, the avoidance of double counting consistent with guidance adopted by the Conference of the Parties serving as the meeting of the Parties to this Agreement.

3. The use of internationally transferred mitigation outcomes to achieve nationally determined contributions under this Agreement shall be voluntary and authorized by participating Parties.

## “Cooperative approaches/ITMOs” language

- Clear path for Parties to move ahead with bilateral and plurilateral trading on a voluntary, decentralized basis
- Recognizes transactions, but does not charge UNFCCC with overseeing them or creating market institutions

# Markets in the Paris Agreement (2/2)

## Article 6

4. A mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development is hereby established under the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to this Agreement for use by Parties on a voluntary basis. It shall be supervised by a body designated by the Conference of the Parties serving as the meeting of the Parties to this Agreement, and shall aim:

- (a) To promote the mitigation of greenhouse gas emissions while fostering sustainable development;
- (b) To incentivize and facilitate participation in the mitigation of greenhouse gas emissions by public and private entities authorized by a Party;
- (c) To contribute to the reduction of emission levels in the host Party, which will benefit from mitigation activities resulting in emission reductions that can also be used by another Party to fulfil its nationally determined contribution; and
- (d) To deliver an overall mitigation in global emissions.

## “Mechanism” language

- Establishes a centralized offset crediting mechanism under the authority of the UNFCCC (i.e., successor to the CDM)

# The limited role of the UNFCCC

- UNFCCC given full authority and oversight over the design of a centralized offset crediting mechanism
- In contrast, a much more circumscribed role on bilateral trading, limited to accounting guidance to avoid double-counting
- Practical recognition of limitations of UNFCCC 195-Party approach in creating markets (cf. experience of “FVA” process)
- But leaves an opening for plurilateral approaches
  - Creation of market institutions (linked registry, trading platform, etc.)
  - Establishment of common standards to build confidence in integrity of international emission trading

# A Club of Carbon Markets

- Purpose: to drive greater mitigation ambition by encouraging use of robust, high-integrity emission trading systems
- Phased approach
  1. Initial focus on standards and guidelines for environmental integrity
  2. Eventual establishment of common market through mutual recognition of carbon emission units
- Full-fledged “club” could offer exclusive benefits
  - Benefits of linkage (liquidity, price stability, market access)
  - Economies of scale in market development (“plug in”)
  - Reputational benefits
  - “Safe harbor” from potential trade measures

# What if all we get is a coalition?

- Club theory suggests importance of incentives
    - Exclusive trade in carbon units
    - Sanctions for noncompliance
    - Border carbon adjustments
  - May not be able to get such incentives right away
    - Limited near-term demand for linkage
    - Thus the “phased approach”
  - Can a coalition shed the "pseudo-" and evolve into a true club?
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