

Environmental Insights

Guest: Andrei Marcu

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Rob Stavins: Welcome to [Environmental Insights](#), a new podcast from the [Harvard Environmental Economics Program](#). I'm your host, [Rob Stavins](#), a professor here at the Harvard Kennedy School and Director of the [Harvard Environmental Economics Program](#). Today we're in Madrid at the [25th Conference of the Parties of the United Nations Framework Convention on Climate Change](#), better known as the Annual International Climate Change Negotiations. And we're really very fortunate to have with us [Andrei Marcu](#), who has had a great deal of experience in these annual negotiations and in a variety of other matters in the energy industry, and more broadly in climate change. Andre is currently the Executive Director of the [Roundtable on Climate Change and Sustainable Development](#).

Rob Stavins: Welcome, Andrei.

Andrei Marcu: Thanks Rob, for having me here today.

Rob Stavins: Great to have you. I'm really interested to hear your impressions of COP 25 here in Madrid. But before we talk about that, I want to go back to learn how it is you came to be where you are? You've had a substantial amount of experience. So I want to start briefly with where'd you grow up?

Andrei Marcu: Well, I grew up a little bit like many of the of the people these days. A little bit of everywhere. I was born in Eastern Europe, but immigrated to Canada early in my life. I went to school at McGill in Montreal, and then spent a number of years in the energy industry before moving into more of the discussion, the global debate on climate change, which I've been doing now for the last 20 odd years.

Rob Stavins: So, your first job out of school, was that in the hydroelectric sector?

Andrei Marcu: Yeah, it was in Ontario Hydro, which its name is somewhat misleading. It originates with Sir Adam Beck at Niagara Power Plant. But really, it was at that time the largest power company in North America.

Rob Stavins: And so, what are a few of the highlights? I mean, one of the highlights of your career that I'm interested in hitting on is, my recollection is that you were actually the founder of the [International Emissions Trading Association](#).

Andrei Marcu: Yes. I was involved in the early days with the Secretary General of the Rio Conference, who was a great believer in market forces in addressing environmental scarcities and environmental constraints. So, we were involved in some of the dialogues that ICAP had put together, to talk about the emissions trading in the Rio process, and following the Rio process.

And that's led at some point, to some of the major corporate pushing for the establishment of an international group of companies to push for the concept of a global carbon price. And that's how something called the [International Emissions Trading Association](#), which was a Geneva-based nonprofit, was established in 1999.

Rob Stavins: So, two years after the Kyoto protocol?

Andrei Marcu: Yeah, that was actually... The founding was, or the initial attempt at founding it was at one of these meetings, what is called the COPS, in Buenos Aires, but really, it started a year later. So yes, two years after Kyoto, which is a national reaction if you went to Kyoto, because the logical flow is from the Rio conventions to the Kyoto Protocol, to an emission trading system. It's a logical progression into the granularity.

Rob Stavins: Indeed. And speaking of emissions trading, you've also had experience in the private sector in trading?

Andrei Marcu: Yeah, well I had two different positions at some point. People were doing policy and people were doing business, and I felt compelled somehow to try. And so, I had two roles. One of them was the CEO of the Carbon Climate Exchange in Paris. And then, I was a Head of Regulatory Affairs at one of the large Geneva-based trading companies dealing with carbon, Mercuria Energy Trading, a much broader company than carbon, but nevertheless involved in that.

Rob Stavins: So in terms of trading, we're going to get into Article Six of the Paris Agreement in a second. But first, I want to take a broader view. You were here last week.

Andrei Marcu: Yep. Actually a few days before because there were bilateral meetings and a number of informal meetings between negotiators. Yes.

Rob Stavins: So, I just arrived a few hours ago. So tell me, tell us, our listeners as well, what's your impression of the first week? But broader than Article Six, just in general?

Andrei Marcu: Yeah, I might. My sense is obviously that we are at the stage now where a lot of the conceptual work has been done because we got a Paris Agreement. Then we have a Paris Rule Book that was approved at last year's annual conference on climate change in Katowice, and we are now refining even further. There are things around tabular reporting systems, things of that sort. The level of granularity is getting lower and lower, or higher and higher, actually. The other way around. And I think people are working with quite a lot of diligence and

enthusiasm. Everybody realizes that we got to make this thing work and make it really operational.

And the last piece that, if you want, is not nailed down, is the Article Six part of the Rule Book. And that is for those of those that have followed these things over the years, you would make a comparison between the Kyoto Protocol and the Paris Agreement, and the Marrakech Accords and the Paris Rule Book. That is kind of the equivalence between these two.

Rob Stavins: So tell us, what are the basics? There are several elements of Article Six – elements that are both interesting, that make it important, but presumably have also made it difficult for the delegates to achieve agreement on the Rule Book, which are the details to some degree, as they did on the other articles.

Andrei Marcu: Well, by necessity when you write an international agreement, whether the Kyoto Protocol, the Paris Agreement, there are a number of ambiguities that you live in. Constructive ambiguity. Yeah, everybody finds themselves into it, but at some point you've got to come back in the rule book and nail that down now. And the problem is that, the fundamental problem is that the Kyoto Protocol, was a very Cartesian Agreement. It made a lot of sense. There was caps in budgets, and people could trade between the allocation between those caps. And everything added and subtracted in a very, very simple way, or logic. It's a giant cap and trade scheme, essentially.

When you come here, this is the attempt and the reason why we got everybody involved... All the countries in the Paris agreement, was largely because it was a bottom up. And that's great, and you know this is the way to go. It will converge over time, as it must. But when it comes to market, this diversity, which is a strength of the Paris agreement, is creating headaches. Because if you've got a broad variety of contributions called nationally-determined contributions, and each country has made one, one pledge, but this pledge are expressed in very, very different ways. And that strengths, that diversity will make the strengths of the Paris Agreement... Makes it difficult to get into accounting and commodities, create commodities, because you have different currencies. It's a very diverse world.

Rob Stavins: So, just to be clear about this. In the Kyoto protocol, where there was emissions trading under Article 17, and then also of course was the clean development mechanism, an offset program that turned out to in some sense be even more important. There was emissions trading, but it was among those countries, the Annex One countries, who all had specific caps, what we'd now refer to as mass-based caps. And what we're dealing with here is much greater degree of heterogeneity in terms of the participating countries?

Andrei Marcu: Yes. Because I'm trying to remember very hard if anybody has a commitment in the form of a cap, which then translates in a budget, the amount, the total amount of emissions that you can have over the period. It's not. In many cases, they are expressed in a year-end commitment. Like we're going to do minus

30% compared to 1990 in 2030, but that is very difficult to define as a budget. It's just an endpoint, or even have other diversities. The amount of deforestation that you do, or the amount of renewable megawatts in your matrix, or the amount of megawatt hours in your energy mix. It's a very, very diverse thing. And again, to begin to compare these things and start to add and subtract, when you transfer between different countries, you really have to come to a common denominator. And parties, some of them more genuine than others, will resist coming to that commonality that would make it easy to trade.

Rob Stavins: And to be specific then, the part of Article Six that we're really focused on now that we're talking about, is Article 6.2, where there is essentially something that looks like nation-nation trading of responsibility.

Andrei Marcu: Look, as you very well outlined, the Kyoto Protocol had these two elements of it. One of them is countries that had caps. The developed countries trading among each other allowances, allocations. And then they had these baseline and credit mechanisms that could be important under the cap in order to help countries meet the cap. But they were all expressed in a unit, commoditized unit, that had a face value of a ton. And so there was no great mystery, and they were all issued by the United Nations. So again, there was one regulator.

In this case, you have an Article 6.2, which basically says that countries can transfer things among each other. And then you have an Article 6.4, which creates a protocol for creating emission reductions that can be traded. Where one ends and the other... What is the role of these two, if you want these two articles, even that is a little bit of a debate. One does one end stops, and there were some arguing that they have to act in tandem, with others arguing that they are parallel worlds.

Rob Stavins: So I'm glad you used the word transfer, talking about 6.2 rather than trade. I'll tell you my view, and you can tell me if this contrasts with your own, I'd love to hear. My understanding, my view of the situation is that individual countries are going to put in place climate policies. Some are going to be cap and trade systems, some are carbon taxes. Most will probably be neither. There'll be some kind of performance standards or other kinds of targets or whatever. And then some of those jurisdictions, as with the case of California and Ontario, Switzerland and the EU, formerly Australia and the EU, will form a linkage, essentially bilateral recognition, and it could be even heterogeneous. It could be carbon taxes and performance standards. We've done work on that. It's still possible. Then the question comes up, however, and that's still not the Paris Agreement at that point. That's just as with California and Ontario. This had nothing to do with the Paris Agreement. They just went ahead and did it. So two parties to the Paris Agreement go ahead and do that. But then the issue comes up, what's the accounting for that to make sure that under the Paris Agreement, they're really not double counting and are both taking credit for the same thing under their respective NDCs, and we're witnessing it properly.

So my view is that the role of article 6.2 is fundamentally as an accounting mechanism, whereas what I've read in some of the documents I've seen, they talk about trading, one country trading to another. And that scares me, Andre, because that's Article 17 of the Kyoto Protocol, which for reasons I wrote about with Bob Hahn in 1999 was never really going to succeed. Countries aren't cost minimizers. They don't have the information to know what the marginal abatement costs are. So where do you... There's a spectrum from, it's basically an accounting mechanism to, wait. We're talking about trading; they're trading ITMOs. They're buying and selling these countries.

Andrei Marcu: Without you being my host today, I think that I would fall where you come from, because Article 6.2 is essentially a framework for accounting for transfers. That's all it is. If there is a market to be made, that's something completely different that will be built on the framework of this accounting system. You need the accounting system. Essentially, people will buy or transfer things to each other if they understand how they account for it, and they perceive or they know it has compliant value. And that is where the accounting system under Article 6.2 comes into play. Article 6.2, at least in my estimation, is not supposed to pierce the national veil. You don't pierce the corporate veil; you don't pierce the national veil. What happens be in the country, and the reduction does the business of that country. It has to explain it very well in a transparency framework, what is done. And you can criticize that as much as you wish, but in the end it is the prerogative of the country. All you do when you transfer it, you got to make sure you don't double count it. And that's the main issue.

Rob Stavins: So why is Article 6.2 important? There's the obvious point that it's the one part that hasn't been completed. But is there something about Article 6, 6 I should say more broadly than 6.2, that makes it fundamentally important in terms of the Paris agreement, in your mind?

Andrei Marcu: I think people have not come necessarily to terms with the concept of trading in order to meet an environmental constraint. There's a broad acceptance that this concept exists, but my suspicion is that once you take it to the people on the street, there's still a somewhat reluctance to say, "Well, I'm going to trade and buy myself out of an obligation." I think the second thing is there is an issue of still large flows of money going from one country to the other rather than spending it at home. So these are things that... The final thing, which is really the important thing is that if used in a massive way, and if not done properly, it does have the ability to actually affect the delivery of the Paris Agreement. If you do this in a massive way and it is not done properly, the credits are not of some decent quality and the accounting is not right. Yes, you could have because the amounts that flow through this could be significant.

Rob Stavins: Looking broadly at the negotiations but including Article 6, what would happen here in Madrid that would cause you to characterize, a week from now, to characterize these talks as having been successful?

Andrei Marcu: I think that there's no way within the constraints of time that we have, and it is a concert of nations, so everybody needs to talk. Within this constraint, I think that what you need, you need enough to be able to operationalize, to lay the basis that somebody can go and start investing money. That's the fundamental thing. And to me there are a number of things. First of all is that there is a broad agreement how to do the accounting. Because if you don't have that agreement people are going to be saying in a corporate board room, "what am I investing money into?" The second thing is, which is very important and I think is broadly missed, is what do you count? Because there are different ways if you transfer a hundred units, if you look at... I will not get into the weeds here, but if you look at the options that are available, there are different ways of what you count.

And if you transfer 100 but you can only use 10 for your compliance, then of course you're only going to pay for 10. So I think that's a very important thing that needs to be nailed down. The market will somehow sort it out and will make a decision whether they want it or not. But unless you do that, I would be very hesitant to invest money if I don't know what the value is at the end of the pipe.

Rob Stavins: So in terms of the rule book that the negotiators are going to be writing, again for article 6.2 at least, here in Madrid over presumably the next five to six days or so. Given that there's all this heterogeneity both in terms of the different policy instruments that are used in different parties, but also, as you've emphasized very importantly, tremendous heterogeneity in terms of the nature of the NDCs themselves. The date, mass bases, relative to business as usual, carbon intensity, and then even the extreme is some that are not even emissions, like the degree of penetration of renewables. Is it conceivable that some of these ought to be identified as being appropriate for Article 6.2 and some not. Or do you not see that? Should it be open to all at this point?

Andrei Marcu: Look, there is a strong resistance from... Some parties are more genuine than others, which are saying I don't have to modify my nationally determined contribution to fit into Article 6, and it's got to be able to cover everybody. The reality is that 98%, I'm just throwing a figure, 98% of any transfer, any dealings is going to be in CO2. There's little doubt about that.

So the question is, do you allow the market to figure this one out? Because if you happen to be a country, you will not buy something that you don't think is recognizable and you cannot stand up in a room and defend it. Can you allow the market to regulate something like this, or as a matter of principle, you don't want to do that or you don't want to be seen as doing that? But there is a strong resistance to disqualifying certain NDCs for participating in Article 6, even though they will never do it.

Rob Stavins: So you've been very diplomatic and we haven't named a single country, so I won't force you to do it. But there are obviously particular parties in the world, both specific countries and also specific coalitions that naturally have negotiating positions on this as they do on any issue.

Andrei Marcu: I've written about this, and in some publication I've been asked to remove them, and in some under my own letterhead, I kept them. But it's quite clear that there are two different views of the world. There is a view of the world that is centered around the European Union with some of the Latins and some of the Africans and the Islands, the LDCs, to take a view that you really have to do all your business in CO2 because this is what the atmosphere sees and this is the logic of the Paris Agreement and the final analysis.

There is another group, which is not a minor group. It includes India, China, Saudi Arabia, Brazil, which take the view that you got to be inclusive. Now, to what degree this latter group hangs together because they have the same philosophical idea or they have other things in common, it's a more complicated story. But it is two groupings that kind of hang together on this.

Rob Stavins: Yeah. It's interesting how on different issues, different groups seem to form. So on some issues China is not part of that group, but on this China is very much part of that group.

Andrei Marcu: Yeah. Politics and negotiation make strange bedfellows sometime, and in this case, yes indeed, this is a collection of countries that in most cases historically have not seen eye to eye. In this case because of the convergence on different sides of Article 6, they stand together. Now how strong this coalition is, I can't tell you. I mean, it's going to be tested at some point and we'll see.

Rob Stavins: So as you mentioned at the beginning, you've been following and engaged in these negotiations for a long time, in fact, before the COPs, going back to the UNFCCC in Brazil in 1992 and then finally then the Kyoto Protocol in 1997, then just a few years ago, the Paris Climate Agreement. What's your basic assessment of the structure of the Kyoto Protocol compared with the structure of the Paris Agreement?

Andrei Marcu: From a trading point of view, the Kyoto Protocol was a very Cartesian and very easy to understand structure. There's no doubt about it. Its great weakness was, in my own humble opinion, the fact that they didn't have a graduation ceremony. It didn't have a way of countries graduating from not having caps to having to have some obligation and contribution.

Rob Stavins: Maybe we should just explain to the listeners, though, what you're referring to is the fact that under the Kyoto Protocol only what were essentially the OECD countries at the time, the industrialized world, named in an appendix, Annex I, had responsibilities. 150 other countries didn't have direct emissions control responsibilities, although they were participants in other ways.

Andrei Marcu: Since Rio and Kyoto, the world has changed quite dramatically in terms of emission profiles and economic power. So the balance that was acceptable at that time became unacceptable and that happened. That came very obvious in Copenhagen at the COP in Copenhagen 2009 where an extension to the Euro

Protocol was sought on roughly the same structure and it fell flat. It was just not something that parties, countries, seemed to want to do anymore. And the outcome was this Paris Agreement, which is decentralized, kind of pledge and review type of approach, which is easier to do to bring the nations to the table. But when it comes to markets, all of a sudden it creates these headaches. There's no doubt.

Rob Stavins: Right. I mean, the very element of the Paris Agreement that led to this broad scope of participation at 98% or whatever it is now of countries that are participating, being associated with emissions of that percentage, that's the same element that then causes what you would anticipate would be not very great ambition given the global commons nature of the problem and the free rider issue.

Andrei Marcu: All these things are converging. The question is to what degree do you force this to do it through the Article 6, or you really are waiting for the first global stock tick taking 2023? And it's obviously parties that would see the end game as a much more coordinated type of nationally determined contributions and accounting and everything else. But they're not willing to wait until 2023, and are through the back door trying a little bit to force things out, while a number of other countries are resisting this for the moment. How long they're going to resist and will they be able to resist in 2023 as well? It is something that is probably not.

Rob Stavins: So what should our listeners be watching for over the next five days? What are some key markers that people might try to pay attention to?

Andrei Marcu: Well, I think that what you've got, first of all, is there an outcome? There is something always called a COP decision that in Katowice was a one-pager because they couldn't reach anything. And now presumably you're going to see three decisions, one for Article 6.2, one for 6.4, and one for 6.8, which we haven't discussed, non-market approaches. And the detail of granularity in the decision and what's being punted to the next years because all these decisions, we'll say in article 6.2, this is how you do the accounting, this, that and the other thing. But then there will be at the beginning also work program in order to elaborate some of these things that will either not be doable within the timeframe or, again, we're punting it because we want a decision on something. Sometimes you don't jump. You kind of go in small steps. This seems to be the case here.

Rob Stavins: So beyond these negotiations, beyond even the Paris Agreement, would you characterize yourself as pessimistic or optimistic about the progress that the world is making on addressing climate change?

Andrei Marcu: We are optimistic in the sense that we're moving in the right direction. I think we need to be not so optimistic at the speed of change. I'm not an atmospheric scientist, but the IPCC and other reports are quite clear on what needs to be done, and I don't think we're matching that speed of change. It is, to be fair also,

not an easy change. It's quite a radical change. I think people are just coming to terms with what carbon neutrality means, and it's not a minor change, not an incremental change. It is a radical change.

Rob Stavins: One thing that we've seen change, at least from my perspective, that seems relatively new in this realm, is the rise both in Europe and in the United States of activism in these youth movements regarding climate change. What's your reaction to that as someone who's been observing this and participating for decades? Now, there's suddenly this new element in the international discussions.

Andrei Marcu: Well, this is where we may part sides a little bit, Rob, because I would argue that there's still... The enthusiasm and the belief is one thing, but there's the cold reality of transitions. I was born somewhere in Eastern Europe, and I haven't lived there in decades, and I don't have much of a connection, but I do know that there's been a great transition that has either sometime not managed or badly managed, and the whole generation has been lost and affected badly.

So I think that we do need to make that transition. There's no doubt, but I think it needs to be well managed. And for that we need to understand what the impacts are. We got to put in place the mechanism and solidarity is going to be very important. So I think that the youth bring the enthusiasm and some of the others will have to bring the reflection to match that.

Rob Stavins: So you may be surprised to hear that we don't diverge. My perspective is the same as yours on that. We're going to end with that. Thank you very much, Andrei, for taking time to join us today. Our guest has been Andre Marcu, the executive director of the Roundtable on Climate Change and Sustainable Development, and a longtime observer and participant in these annual climate negotiations. Please join us again for the next episode of [Environmental Insights: Conversations on Policy and Practice from the Harvard Environmental Economics Program](#). I'm your host, Rob Stavins. Thanks for listening.

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