

A Club of Carbon Markets


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The talk, in three bullets

- Encouraging carbon markets could support reductions in carbon emissions
 - The UNFCCC process may not be up to the task
 - How a club of carbon markets could help
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The role of carbon markets

- Familiar advantages over conventional regulation
 - ✓ Hard cap matched with flexibility on how to meet it
 - ✓ Cost-effectiveness
 - ✓ Incentives for innovation
- Potential for cost-effective “bottom-up” architecture through linkage
 - Linkage not a panacea (Wagner, Green, & Sterner)
 - But still provides a range of potential benefits
- Bottom line: Carbon markets enable deeper cuts and greater ambition

What market infrastructure is needed?

- Transparent tracking and accounting of emissions units and transactions
 - Linked registries
 - Common/mutually recognized guidelines/standards for integrity
 - Common accounting rules to ensure clear definition and fungibility of traded units and avoid double counting/claiming
 - Transparent monitoring, reporting, verification
 - Harmonized/mutually recognized emissions units criteria, including offset protocols
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Can the UNFCCC deliver that framework?



If not the UN, then who?

A different model: The world trade system


- The GATT: a “club” approach that coalesced in the wake of the failure to ratify the Havana Charter
 - Broad development of multilateral trade rules
 - More recently, plurilateral agreements on a “critical mass” basis

 - NB: Other models from security policy (e.g., Missile Technology Control Regime (MTCR))
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A Club of Carbon Markets (1/2)

- Purpose: to drive greater mitigation ambition by facilitating/encouraging use of robust, high-integrity emission trading systems
 - Core of the CCM would be mutual recognition of carbon emission units among member jurisdictions
 - Modeled on international institutions in which nations *want* to participate
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A Club of Carbon Markets (2/2)

- CCM would provide “common market infrastructure”
 - MRV/accounting framework
 - Harmonized offset protocols
 - Tracking of allowances (common/linked registries)
 - Could also facilitate sharing of information, technical advice, etc.
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Club benefits as participation incentives

- We envision the CCM as a club in the economic sense
 - Genuine “clubs” are more than coalitions: they offer exclusive benefits to members
 - Necessary to mitigate free riding and create incentives to adopt ETSs and join the club
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Who has capacity to ~~treat~~ join?

Could include states and provinces as well as nations; perhaps industry sectors as well (e.g. civil aviation)


Membership criteria (e.g.)

- ✓ At least one ambitious absolute emissions cap on a sector (e.g., electric power, industry) covering a significant fraction of national emissions
- ✓ Using a market-based measure to implement the cap
- ✓ Transparency requirements (MRV)
- ✓ Capacity to enforce the cap, and clear consequences for failure to comply (creates scarcity)

Relationship to existing landscape

Question for discussion in this group:

How might a CCM interact with existing institutions with related objectives and activities?

- PMR
 - Carbon Pricing Leadership Coalition
 - iCAP
 - APCMR
 - Existing linkages (EU, CA-QC-ON)
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What should the UNFCCC's role be?

Avoiding “double counting” / “double claiming”

“A Party engaged in international cooperative mitigation activities shall avoid double counting/double claiming^[1] of mitigation outcomes by adjusting its national emissions inventory or other appropriate registry, and reflecting such adjustments in reports required under the Convention”

^[1] See UNFCCC Secretariat technical paper, FCCC/TP/2014/9, available at <http://unfccc.int/resource/docs/2014/tp/09.pdf>



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