Transparency and Linkage in a New Paris Regime

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WEDNESDAY MARCH 9, 2016
Planned Scoping Study on ‘Networking’ in China

**Background of Carbon Markets in China**

**7 Pilot ETSs (2013-2015/6)**
- Varying levels of economic development in participating regions
- Local governments given significant flexibility in designing pilot ETSs
- Resulted in ETSs with fairly heterogeneous structures

**National ETS Phase 1 (2017-2020)**
- The first phase will focus on refining the national carbon market framework and convince Chinese stakeholders consider international linking compatibility in the national ETS design.

**National ETS Phase 2 (post-2020)**
- The second phase would start to explore pilot regional or sectoral international linkage and implement concepts networked carbon market opportunities

**NCM Activities**

- A **scoping study** in China will be led by Tsinghua University, University of Edinburgh, and the China Beijing Environment Exchange (CBEEX) to explore opportunities for the NCM Initiative to support China’s international linkage efforts
- The study will conduct **stakeholder outreach** to explore opportunities for the NCM Initiative to support China’s international linking efforts and identify potential for conducting regional pilots

Image source: SEI (2012)
COP21, carbon pricing and ‘Climate Clubs’

Fostering Multi-Jurisdictional Cooperative Approaches

Michael Grubb
Prof. International Energy and Climate Change Policy, UCL
Editor-in-Chief, *Climate Policy* journal
Board member, *Climate Strategies*

- What has Paris Changed?
- Carbon pricing and ‘cooperative arrangements’
- Some (even) bigger-picture pricing co-ordination challenges
The wider significance of Paris COP21 resides in four fundamental changes

• Twenty-three years after the UNFCCC, we have a specific interpretation of ‘avoiding dangerous interference’ in formal UN Agreement
  – And it is a highly ambitious one, on mitigation, adaptation and finance

• The Firewall is Dead – we are all in this together
  – Extensive but nuanced recognitions of differentiation, but no reference in COP21 texts to Annex I / non-Annex I
  – The other elements: universal NDCs with differential expectations, finance, elevation of adaptation, loss & damage, forestry etc are all manifestations of a new global balance with higher relevance of developing country concerns

• This is an evolutionary solution
  – In time, and space – and potentially, in legal form

• This is a global social endeavour (COP Decision, sections IV and V)
  – not a UN-driven solution relying purely on nation-state implementation
  – a revolution in international governance and indeed the assumptions underpinning it
  – rooted in transparency, multi-level solutions, private sector and social pressures

A fundamental updating of the UNFCCC framework for the 21st Century
UNFCCC / Paris Agreement a *necessary condition* for the things that matter, but (much less than) half the story

- Paris also displayed a huge diversity of other activities across numerous diverse sectors of society
  - Actively encouraged more than ever before
- UNFCCC *cannot* be the forum for serious implementation efforts
  - But *should* be the court of Common Accounting, evaluation, guidance and strengthening
- It has a *duty* to encourage ‘joint efforts’ – plurilateral arrangements (as with trade regime) to further implementation and ambition
  - Eg. ‘Cooperative arrangements’ (Clubs, in economic speak)
- The 2018/2020 processes themselves could provide pressure – or pretext – for strengthening NDCs, unlikely to be universal
COP21, carbon pricing and ‘Climate Clubs’

Can a Multi-Jurisdictional Cooperative Approach foster a ‘Global Carbon Market’?

Michael Grubb
Prof. International Energy and Climate Change Policy, UCL
Editor-in-Chief, Climate Policy journal
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- What has Paris Changed?
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Filtering ‘Climate Clubs’ to get closer to pricing
- note that international flexibility and pricing overlap but not synonymous

Clubs aiming to achieve objectives beneficial to climate

Clubs quantifying or unitising their objectives

Clubs allowing transfer or trading to achieve objectives

Clubs applying compliance measures to achieve objectives

Clubs using an explicit price instrument
‘All politics is local’

Facing the realities of international carbon pricing

- Some 5000? years after inventing money, we still do not have a single global currency..
- Some 25 years after UNFCCC and Scandinavian implementation of carbon pricing, 20 years after the US Administration advocated for global carbon markets, 10 years after the EC set explicit objective to achieve that by 2020 …
- … OECD identified that less than 10% of global carbon emissions covered by any carbon price
- … and almost all the systems (even Scandinavia) are different in design, coverage, price, etc.

The purpose of a carbon pricing ‘club’ must be to help national decision-makers, not to replace them!
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• A simple interpretation
• What has Paris Changed?
• Carbon pricing and ‘cooperative arrangements’
• Some (even) bigger-picture pricing co-ordination challenges
Linking is potentially disruptive for both jurisdictions and entails a loss of national control.
- The political issue is not efficiency, but acceptability.
- The potential culmination of convergence, not the driver.

Exchange rates are therefore crucial for managing the process.

**Before Bilateral Linking**  
**After Bilateral Linking**

**Note:** *The prices reflected are illustrative only*

**Source:** Climate Strategies, as developed in Carbon Trust (2009)
Purpose of carbon pricing clubs – to help jurisdictions navigate a difficult journey

In a world of unequal carbon prices

Governments can take interim action

While working towards multilateral solutions for leakage concerns

That feed into fuller global action

Breadth and Depth of national systems
Planetary Economics: Energy, Climate Change and the Three Domains of Sustainable Development

1. Introduction: Trapped?
2. The Three Domains

Pillar 1
- Standards and engagement for smarter choice
- 3: Energy and Emissions – Technologies and Systems
- 4: Why so wasteful?
- 5: Tried and Tested – Four Decades of Energy Efficiency Policy

Pillar II
- Markets and pricing for cleaner products and processes
- 6: Pricing Pollution – of Truth and Taxes
- 7: Cap-and-trade & offsets: from idea to practice
- 8: Who’s hit? Handling the distributional impacts of carbon pricing

Pillar III
- Investment and incentives for innovation and infrastructure
- 9: Pushing further, pulling deeper
- 10: Transforming systems
- 11: The dark matter of economic growth

12. Conclusions: Changing Course

Kindle: http://www.amazon.co.uk/Planetary-Economics-Sustainable-Development-sustainable-ebook/dp/B00JQFBWDO/ref=tmm_kin_swatch_0?_encoding=UTF8&sr=8-1&qid=1415625933

http://climatestrategies.org/projects/planetary-economics/
for information, Highlights summary and register of related work.
Part of a series of Climate Strategies’ research informing Carbon Trust publications for business and literature for IPCC Fifth Assessment

- Sponsored research through an international network of academics
- In this case led by Andreas Tuerk at Joannum Institute, Graz with an international team in Australia, Japan, Canada and US
- Empirically-based research, with two international workshops with stakeholders developing or studying regional schemes
- Published as a series of academic papers, and Special Issue of Climate Policy journal, available from: www.climatestrategies.org www.climatepolicy.org

- Explains the issues and opportunities to business and the public sector
- Carries out further analysis and thinking to clarify, develop and communicate the implications of the research
- Carries out stakeholder engagement, both before and after publication
- Produces a ‘glossy’ publication available from: www.carbontrust.co.uk
The Regulatory Framework to Support Carbon Market Linkage

9 March 2016
NCM Workshop, Zurich
Peter Zaman
Thinking about linking – Post Paris

• Article 6(1)-(3) supports Co-operative Measures – i.e. linking between two or more schemes which works for the NCM concept.
  • However, subject to “robust accounting to ensure inter alia, the avoidance of double counting, consistent with guidance adopted by the” COP

• But Article 6(4)-(7), the SDM, does not support the NCM concept because:
  • The SDM is centralised and top-down
  • Seems limited to offsets
  • Does not give the mechanism the mandate, on its face, to differentiate between Parties efforts on the basis of their MV.
National vs. Sub-national - structural limits

The Paris Agreement limits the flexibility for cross-border linkage at sub-national level because:

- Parties will wish for any cross border efforts to count towards their NDC; or
- To not adversely effect any efforts at national level
- The modalities, procedures and guidelines (i.e. Transparency) under Article 13 (concluded by 2018) to be determinative of scope of sub-national ability to account for cross-border transfer of units
- Avoiding double counting will require national and sub-national level efforts to apply similar accounting principles (but not available before 2018?)
Multilateral linking – the Carbon Club Model

Country A

Regional / Club

Country B

Country C

Country D
Multilateral linking – the Multilateral Trading Model

Diagram showing multilateral linking among countries.
Regulatory Framework for linking (1)

- Recognise that this is not the regulatory framework for establishing ETS. We assume this already exists at national level.
- Not the regulatory framework for the MV assessor under the NCM.
- What do you need on top of the national regulatory framework?
- Dictated by:
  - The governance framework and the legal framework; both of which are dictated by the:
    - Design and scope of the markets to be linked (e.g. partial v full, direct v indirect, common platform v linked platforms etc.);
    - Differences between the markets that need to overcome;
    - Whether national or sub-national level schemes.
Regulatory Framework for linking (2)

Decision Making Body

Administrative Body

Sub-Administrative Body (1)
Sub-Administrative Body (2)
Sub-Administrative Body (3)

Working Group (1)
Working Group (2)

Secretariat
Regulatory Framework for linking (3)

- To reinvent the wheel or use existing frameworks?
- Examining the pros and cons
- Challenges for effective integration and implementation
- Some existing frameworks may be more suitable than others, e.g. the Trans-Pacific Partnership ("TPP")
  - TPP does not expressly cover carbon markets and trading and does not impose a cap-and-trade scheme
  - However, it encourages the implementation of multilateral environmental agreements ("MEAs") and has some language similar to the Paris Agreement
  - The topic of carbon markets would likely be ‘bolted on’
  - But non-TPP participants who want to join the carbon club will likely need to accede to the full agreement and be accepted for full TPP membership
The Regulatory Framework to Support Carbon Market Linkage

Peter Zaman