Scheduled at: 10:10 - 10:20
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Provisions for Market Mechanisms in the 2015 agreement

Catalyzed by a few provisions in the KP, the carbon market has become one of its most visible outcomes. The 2015 agreement is emerging as a much more heterogeneous system. This event will examine the provisions of the 2015 agreement that will allow for carbon pricing to continue to play an important role

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Co-hosted by CEPS, Centre for European Policy Studies and PD Forum

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Post 2020 Carbon Markets

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PD Forum strongly supports markets

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- Helpful to think of markets as carbon markets which are driven by carbon assets – AAUs, CERs, EUAs etc
- Means that sources of GHG emissions which are not covered by an asset driven policy or measure must be covered by a non-market based approach
  - This is already an important conclusion for govts thinking about the nature and scope of PaMs which they need to develop

What provisions in the 2015 text?

- Looking for something fairly short and non-specific simply acknowledging that (carbon) markets can be used to help Parties fulfil their INDCs
- And possibly recognizing the there may be one or more New Market Mechanisms which may or may not draw on the CDM
- And that transfers of assets between Parties shall be accounted for so as to avoid any double counting (FVA)

What, no AAUs?

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- Markets in a post 2020 regime are going to be very different from what we know today
- For example we have learnt that widespread use of free allocation is a disaster
  - What did the global citizen get out of the allocation of AAUs to KP parties? What did the tax paying EU citizen get out of the free allocations of state assets to industrial facilities?
- The INDC process is the start of the division of the remaining atmospheric space between Parties
- Targets under INDCs are effectively UN approved sovereign assets and I propose that countries should hold onto these and work to maximize their value for their citizens – i.e. not give them away for free to polluting industries!

Auctioning and price discovery

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- To be effective and avoid the pitfalls that trapped the KP and the EU ETS, units must be auctioned, with a floor price
- Funds from auctions need to be reinvested back into the sectors which buy and particularly to EITE industries
- Auctioning allowances changes the nature of the market when compared to free allocation
  - Free allocation: I’ve got a million allowances, if I can reduce my emissions to 600k I can sell 400k – triggers lots of market activity
  - Auctioning: I only need 600k so I’ll buy 650k just in case and get on with doing what I do
- Auctioning turns an ETS intro an EPS – emissions pricing scheme
- Put this another way, if a jurisdiction has lots of units to sell, the questions are: How did they get those units? Do they have any environmental value at all? Are they hot air? Who is paying the environmental price?

International transfers under INDC

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- The nature and volume of international transfers will change markedly under INDC.
- Many countries' experience of emissions trading has been the transfer of a CER, generated through the implementation of additional project based activities
- Post 2020, that transfer will need to be accompanied by an addition of one emission to the host's national inventory.
  - If the project is truly additional, then no problem
  - If the project is "partially" additional, the government is effectively authorizing the PP to sell part or all of a state owned asset.
  - Not necessarily a bad thing – can be used as a means of driving investment into key regions or technologies, but it's a long way from how Non-Annex 1 Parties have viewed the CDM to date
- How important is an LoA now?

So what role for markets?

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- Domestic / internal ETS with auctions to give price discovery
  - But taxes offer greater stability and forward price certainty
- Emission reduction projects (under a reformed CDM) providing flexibility to ETS or Tax; unlimited use of domestic ERs, limits on import of international ERs
- Linkage through international transfer of ERs
- Merging of ETS by allowing others to participate in auctions (different from linking via transfers of allowances on the secondary market)
- Much more scope for delivery of other outcomes which have mitigation and adaptation benefits (NAMA/NAP)

In conclusion

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- Carbon markets are a very exciting space with much to contribute to achieving our global targets
- But the examples we have seen to date bear relatively little resemblance to kind of markets that we need to create to succeed
- Therefore we need a lot of flexibility in the 2015 text around how and what markets are
- And we need to be prepared to come up with some new approaches to markets and the way we use them to distribute and consume our remaining atmospheric space

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Thank you for your attention!

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