A Club of Carbon Markets

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The concept, in three bullets

- Encouraging carbon markets could support reductions in carbon emissions
- The UNFCCC process provides one avenue, but other avenues could be useful as well
- How a club of carbon markets could help

The role of carbon markets

- 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
- <u>Bottom line</u>: 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

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))

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

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.

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
- Exclusivity necessary to mitigate free riding, incentivize jurisdictions to adopt ETSs and join the club

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)

Avoid "double counting"/"double claiming"

Key role for the UNFCCC

"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"*

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[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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