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

• **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
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 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”

“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”
