



PARTNERSHIP FOR MARKET READINESS (PMR)

PMR INSIGHTS ON POST-2020 CARBON MARKETS

Summary of 13th PMR Technical Workshop

Tuesday 27 October, 2015

Sweimeh (Dead Sea), Jordan

INTRODUCTION

1. This note summarizes the presentations and discussions from the PMR Technical Workshop ‘PMR Insights on post-2020 Carbon Markets’, which took place in Jordan on October 26, 2015. The workshop was attended by approximately 80 participants from PMR Participants, as well as, a number of international experts. Building on previous PMR discussions held on the topic, it provided another opportunity to discuss how carbon markets might develop post 2020. Taking place immediately after the last UNFCCC negotiation session ahead of COP21, it provided a timely opportunity to review and take stock of the role carbon markets could play in achieving different countries’ national contributions. It also allowed Participants to hear about the latest developments and understand the options that could accommodate markets in the Paris agreement, and their relationship to readiness activities in PMR countries. Finally, the workshop provided an opportunity to discuss insights from the PMR that could help inform the international discussions on carbon markets.

2. The workshop agenda, list of participants, and all presentations are accessible from [the PMR website](#).

DETAILED SUMMARY OF THE WORKSHOP

1. Introductory session

3. The workshop was opened by Mr. Venkata Ramana Putti, Program Manager, Carbon and Climate Finance, World Bank Group. In his remarks, he noted that with the COP21 only weeks away that the workshop provided a timely opportunity to review and take stock of the role carbon markets could play in the future regime. He indicated that there is a unique role for the PMR to bring its practical experience to the international discussions. He mentioned that he expected the day’s discussions to build on earlier PMR workshops in Santiago and London, and two sessions on the margins of other UNFCCC negotiating sessions in Bonn. He went on to outline the objectives of the day including: to hear the latest developments, to understand the options that countries are still considering, and to discuss what can be expected in Paris and beyond; to consider how these developments might influence the readiness activities that PMR implementing countries are undertaking; to gather and share any insights from the PMR that could help inform the international discussions on carbon markets; and finally to discuss how the work program of the PMR can support countries in their ongoing discussions on international carbon markets.

4. Following these introductory remarks, [Ms. Pauline Kennedy](#), PMR Secretariat, presented an overview of the key themes of previous PMR discussions, the workshop objectives and the agenda for the day.

2. Stock-taking on the status of carbon markets in the UNFCCC negotiations

5. This session provided an opportunity to discuss the latest development in the UNFCCC negotiations with regard to carbon markets. Mr. Juan Pedro Searle (Ministry of Energy, Chile) moderated the session in which Mr. Perumal Arumugam (UNFCCC Secretariat) provided a stock-take on carbon markets in the UNFCCC negotiations. The presentation was followed by an open discussion to explore similarities and differences between options for carbon markets and the practical implications for PMR activities.

Stock-taking on carbon markets in the UNFCCC negotiations

6. [Mr. Perumal Arumugam](#) (UNFCCC Secretariat) provided an update on the UNFCCC negotiations as they relate to carbon markets. He explained that there remained divergent views on carbon markets in the Paris agreement that still need to be resolved. He also explained that for many Parties it is essential to include provisions for market instruments/market-based cooperation in the Paris Agreement. At the same time, some Parties do not want to see provisions for market mechanisms included in the Agreement. Further, many Parties consider they do not need 'permission' to cooperate through markets for the achievement of its commitments, but want to see rules to ensure minimum environmental integrity of mitigation outcomes transferred internationally and used towards commitments. Along that line, many Parties stress the need for development of accounting rules that avoid double counting, uphold environmental integrity and ensure that mitigation outcomes transferred internationally are real, permanent, additional, and verified. Finally, many Parties want the Paris Agreement to include a centralized mechanism but there are different views on what kind of mechanism it would be for example the CDM, New Market Mechanism, Joint Mitigation and Adaptation (non-market) or REDD plus crediting. He also explained that aspects relating to markets and non-market approaches, accounting and mechanisms are likely to be resolved at the political rather than technical level.

Open discussion to explore option for carbon markets

7. Mr. Juan Pedro Searle (Ministry of Energy, Chile) moderated an open discussion amongst participants in which participants had an opportunity to indicate if an intention to participate in international carbon markets was a part of their INDC; provide their expectations for the Paris outcome in terms of carbon markets; explain any preferences for the outcome and how the outcome might influence their plans at home, and share any concerns about ongoing uncertainty and how this might impact on their activities going forward. Four participants opened the discussion.

8. Ms. Nathaly Torregroza (Ministry of Environment and Sustainable Development, Colombia), explained that Colombia would continue to take a proactive position on carbon markets in the international negotiations, while at the same time needing to manage expectations in the domestic discussions and day-to-day work on their market readiness. Specifically, Colombia would like to see a window open under the Paris agreement that would allow for trade. If this is not possible then Colombia would still keep the option when planning how to move forward on their domestic activities. She explained the difficulties associated with the legacy of the CDM with some important stakeholders still having much expectations and facing the possibility of their projects being stranded. Ms. Nathaly Torregroza anticipated that there will be changes in the way carbon markets operate and function post-2020 and that she expects that what the PMR community does under the PMR at the practical level can help inform international arrangements.

9. Mr. Felipe De Leon (Ministry of Environment and Energy, Costa Rica), explained that INDCs have changed the role of emissions reductions and international carbon markets for Costa Rica in that everything that is "sold" to another country now has an additional value domestically in the context of accounting against INDC targets. In this new context, Costa Rica is thinking carefully about what mitigation outcomes it would want to transfer internationally. In essence, if they can sell abatement at a value above its specific abatement cost it would be attractive as the difference can be used to help finance the achievement of the INDC and/or to help finance projects that have strategic or longer-term value. Mr. Felipe De Leon also discussed the potential value of market approaches as an internal accounting and

finance tool. He stressed that the methodologies etc., need to be suitable for Costa Rica's national circumstance, but noted there is experience with international standards that provide enough flexibility to accommodate different circumstances. Costa Rica indicates in its INDC that it intends to participate in market mechanisms but does not expect to acquire credits from other countries to achieve its INDC.

10. Mr. Toshiaki Nagata, explained that Japan had submitted its INDC and expressed an openness to use international markets to achieve it. While the JCM remains an important part of Japan's plan it is not explicitly mentioned in the INDC at this stage. The intention is to have appropriate accounting arrangements for JCM once it moves out of the pilot phase. Since Japan last briefed the PMR on the JCM it has approved more projects and methodologies and expects to issue credits into the registry shortly. On the international negotiations his sense was that there was still dissatisfaction by many Parties on the markets elements and much work to be done to reach consensus. Japan would like to see two important elements remain to support international trade (i) a centrally governed mechanisms and (ii) a framework that would allow for other markets to trade. Mr. Toshiaki Nagata did not anticipate detailed rule-setting at the international level but did expect arrangements that would ensure sound accounting and reporting.

11. Mr. Quang Huy Luong indicated that Vietnam was interested in participating in international carbon markets and a hope that the uncertainty at the international level around the principles and arrangements to support markets can be resolved. Mr. Quang Huy Luong shared his expectation that there is a large potential on the supply side from Vietnam and other countries but that there is uncertainty around demand, where it will come from, how much and what is it that they will want to buy. He also discussed that international market mechanisms will need to accommodate action that is nationally appropriate and be consistent with other national policies.

3. Role and scale of carbon markets post 2020

12. This session provided an opportunity to review and take stock of the INDCs, discuss the role of carbon markets in helping countries to achieve their INDCs, and the implications for the development of the carbon market after 2020. Ulrika Rabb, Swedish Energy Agency, moderated the session in which Mr. Carsten Warnecke, New Climate Institute presented on INDCs and Carbon Market Post-2020, and Mr. Grzegorz Peszko, World Bank Group presented on emerging trends and role of international cooperation.

INDCs and carbon markets post-2020

13. [Mr. Carsten Warnecke](#), New Climate Institute, presented a snapshot of the submitted INDCs, and discussed some implications for international carbon markets. A large number of countries had already submitted their INDCs at the time of preparing the presentation (covering over 85 per cent of global emission) with more INDCs expected before COP21. He presented analysis of the submitted INDCs that indicated the use of markets is an important policy instrument for many countries. There is a sizeable number of Parties who have expressed an interest in the use of markets in achieving their mitigation objectives, with more than 50 per cent of countries favoring/expressing openness to explore/participate in markets in their INDCs and only 7.5 per cent expressing a clear intention not to use carbon markets for the achievement of their current targets in the INDCs. The analysis also showed that the commitments are not sufficient to achieve the global emissions goal and that the cumulative effect of the submitted INDCs is expected to put us on a path toward 2.7oC rise. Mr. Carsten Warnecke explained that the use of market mechanisms could be an important instrument to help raise mitigation ambitions both internationally and domestically in many countries looking forward.

Emerging trends and role of international cooperation (Grzegorz Peszko, World Bank Group)

14. [Mr. Gregorz Peszko](#), World Bank Group, gave an overview of a recent World Bank publication: State and Trends of Carbon Pricing 2015. The report finds that about 7 GtCO₂ emission is being covered by explicit carbon pricing (12% of global emission). Currently, 39 national and 23 sub-national jurisdictions have put a price on carbon. At the same time, corporate carbon price is spreading, with 437 companies using internal carbon price in 2015. Furthermore, the report finds that international cooperation can help reduce the overall cost of achieving climate stabilization goal by 10-70 per cent compared to the costs without international cooperation. The report indicates potential financial transfer under international cooperation scenarios could reach \$400 billion in 2030, and \$2.2 trillion in 2050.

15. A participant asked to what extent the current tax revenues are targeted to specific issues. The presenter explained that the way revenue is used varies in different countries. For example, some countries use carbon tax revenue to help reduce income taxes, while others earmark it to social expenditure, as for example is the case in Chile where carbon tax revenue will be used to fund education expenditure.

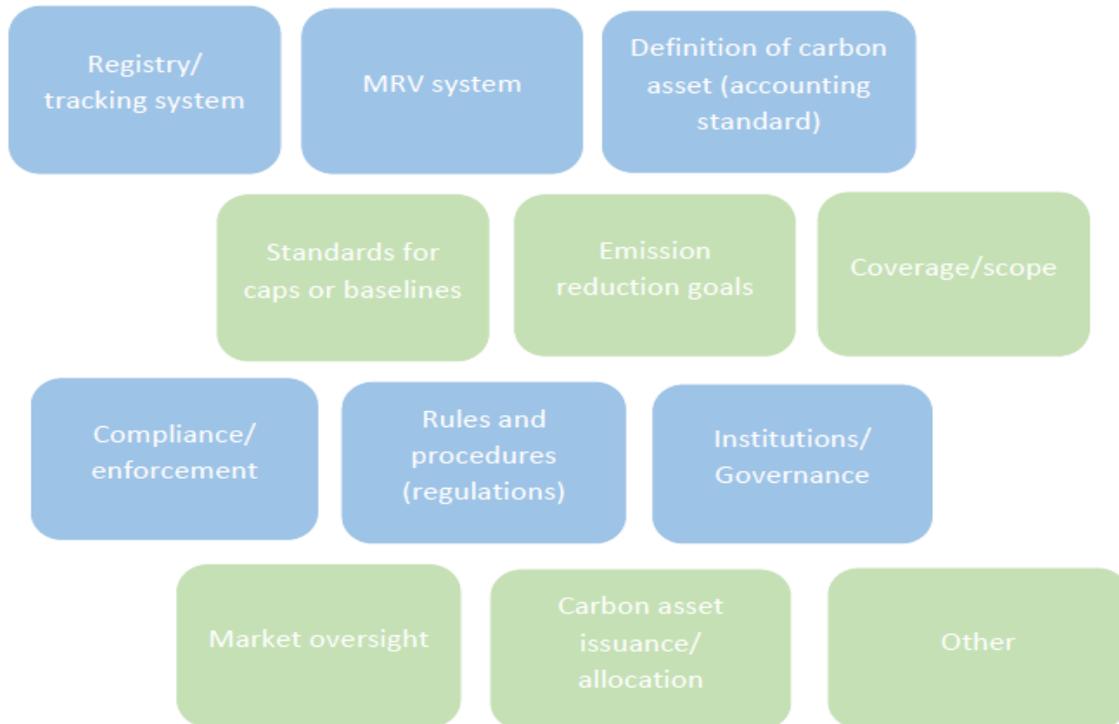
16. Another participant asked how corporations incentivize themselves to impose carbon prices on their own businesses. The presenter provided a few examples including the interest in using carbon price for stress testing of their own investment and business from financial viewpoint, using carbon price to generate alternative internal revenue to fund R&D program, and preparing for potential explicit carbon pricing policies in the countries.

4. PMR insights to help elaborate arrangements for post-2020 carbon markets

17. Discussions to elaborate arrangements for post-2020 carbon markets are ongoing. The practical experience emerging from the PMR can provide valuable insights to help elaborate those arrangements. This session provided an opportunity to (i) gather insights on the scope of arrangements for trade and the priorities and timelines for any ongoing discussions and/or international work program; and (ii) form recommendations on how the PMR work program can further support countries as they work to elaborate arrangement for international carbon markets.

18. In [small groups](#) participants discussed (i) key building blocks of arrangements for trade in carbon assets (see next graph); (ii) how these arrangements could influence (PMR-supported) readiness activities at the national level; and (iii) if and how, the PMR can support countries in their discussions to elaborate arrangements for potential trade in carbon assets. The background note prepared by the PMR secretariat can be accessed [here](#).

□ **Example building blocks for arrangements to enable international trade in carbon assets**



19. Participants overall shared the notion that all of the suggested building blocks would be required to support the trade in carbon assets. However, the detail around the arrangements for these different building blocks could depend on the level of the agreement (bilateral between trading partners, plurilateral between a group of potential trading partners, or multilateral). There was also discussion that arrangements agreed at the multilateral level would likely influence the more detailed arrangements that would need to be agreed either pluri- or bilaterally to support trade. Countries would need to determine what level of detail is required at the multilateral level for the different building blocks and what would be better addressed more directly by trading partners. Regardless the technical guidance and experience on these building blocks can help to inform arrangements for trade at any level market-based cooperation may be agreed upon by trading partners.

20. Participants also discussed that there is a window now for their domestic readiness activities to be informed by, and be consistent with, internationally agreed arrangements for trade. But the timeframe is reasonably narrow since they are making their plans and starting to build their systems now and there is only so much flexibility that they can retain. Several participants felt that if the uncertainty remains at the international level, some countries may decide to move forward with the design and implementation without it. They discussed the value of cooperating with others in the interim to share ideas on appropriate arrangements for trade in the future. Participants discussed the importance of understanding the preferences of potential buyers to make sure that their carbon assets would meet expectations and/or standards of buyers.

21. Participants recommended that the PMR take stock of the outcomes of COP21 early in 2016 and continue discussions of potential implications for the PMR and readiness activities of Participants. It was

also suggested that the PMR's primary focus remain on developing sound technical guidance to support the different building blocks. Finally it was suggested that the PMR facilitate exchanges between Participants on the potential for trade and arrangements that would support such trade.

5. Next steps and closing

22. The meeting was closed with remarks from Mr. Venkata Ramana Putti, Program Manager, Carbon and Climate Finance, World Bank Group.