Overview of previous PMR discussions and objectives for the day

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Objectives for today

◆ One in a series of PMR workshops designed to:
  ▪ Build knowledge on key technical market related issues discussed at the international level
  ▪ Exchange views and facilitate a common understanding for how the carbon market(s) will develop
  ▪ Bridge the gap between carbon market practitioners and negotiators
  ▪ Inform PMR activities accordingly

◆ Specifically today we will:
  ▪ Hear about latest developments and expectations for Paris
  ▪ Understand implications for PMR readiness activities and post 2020 carbon markets
  ▪ Gather insights from PMR that could help shape discussions elsewhere
  ▪ Make recommendations for PMR future work program
Agenda

1. Stock-taking on the status of carbon markets in the UNFCCC negotiations
   - Presentation from UNFCCC Secretariat
   - Open discussion to share views

2. Role and scale of carbon markets
   - Overview of INDCs and implications for post-2020 carbon markets
   - Emerging trends and role of international cooperation

3. PMR insights to help elaborate arrangements for post-2020 carbon markets
   - Breakout group exercise
Build on previous discussions

- PMR workshop: Different Market-based Approaches & Implications for a Future Carbon Market (Santiago, November 2014)
- PMR dinner and roundtable discussion, focus on the characteristics, approaches and requirements appropriate to support international trade (Bonn, June 2014)
- PMR dinner and roundtable discussion, focus on role and likely scale of international trade (Bonn, August 2014)
Some shared objectives

◆ Policy makers seek to implement mechanisms that are:
  ▪ **Credible** – mechanisms that are effective and trusted
  ▪ **Consistent** – mechanisms that are internally consistent (incl. with domestic laws), consistent over time, and international norms and standards
  ▪ **Compatibility** - with other mechanisms to minimize duplication of effect and costs, support credibility, address competitiveness concerns and retain the option for future linking.
  ▪ But also **cost-effective**
Although mechanisms are varied there are some common building blocks
Actual design choices reflect national priorities and circumstances
More than one approach to achieve robust outcomes
Benefits of linking or trading internationally

- Can increase liquidity and improve efficiency, as well as drive innovation.
  - Comparing carbon assets originating in different jurisdictions and from different mechanisms will be key.

- Benefits of trade balanced with desire to design policy to best suit national circumstances
Options for a future global carbon market

- For countries and jurisdictions to decide
- Post 2020, countries will have INDCs and may want to transfer mitigation outcomes / carbon assets
- Could be bottom-up linking of different domestic arrangements
  - Several options for how this could be operationalized on a global scale
- Could include some ‘default’ international mechanisms
- Could be supported by an international framework that is more or less prescriptive
Two important challenges to be resolved:

- greater variety of carbon asset flows – different types of units, arising from emissions sources inside and outside INDCs, and multi-directional with some developing countries also potential buyers.
- greater variety in the type of national commitments – absolute, intensity, compared to BAU, etc.

3 accounting issues to be address in the post-2020 arrangements

- registries and tracking systems
- governance of unit issuance
- systems or rules for accounting
Role of crediting post-2020

International Framework
- INDCs: ambition, scope, use of credits
- International accounting rules

Crediting programmes
- Integrity / quality
- Transaction costs
- Projects, programmes, sectors or policies

Domestic framework
- Emerging ETS
- Other climate policies

Supply

ETS sectors
Non-ETS sectors
Aviation / shipping
Results-based finance
Voluntary Offsetting

Demand

International

national
Ensuring the quality of carbon assets traded

◆ Some shared principles at the international level could be helpful
  ▪ E.g. markets to deliver real, permanent, additional and verified mitigation outcomes
◆ Oversight of the ‘quality’ of carbon assets traded will depend on nature of agreement
  ▪ i.e. the accounting and transparency aspects in the new agreement
  ▪ Could be more or less prescriptive
◆ Minimum or common standards could be developed to help with mechanisms design
  ▪ But countries will always have flexibility to apply their own additional criteria
Design characteristics that determine quality

- Cap setting or baseline for crediting
- System for MRV
- Registry
- Coverage and allocation
- Measure to address risk of reversal (sinks only)
- Compliance and enforcement
Potential role and scale of international trade post 2020

- Trade has potential to decrease cost of achieving global environmental goal and to contribute to finance flows
  - International trade in carbon assets is an effective way to mobilize finance flows from one country to another
- Scale of trade to 2020 likely to be limited
  - with implications for the responsiveness of the market in post-2020 period
- Prospects beyond 2020 for international trade better
  - Some have expressed intention and/or potential interest in trade in the INDCs, but large emitters have not
- Beyond 2030 trade could become more important as ambition increases and higher cost abatement targeted
For discussion today

- Hear about latest developments and expectations for Paris
  - What are your views and expectations?
- Understand implications for PMR readiness activities and post 2020 carbon markets
  - How will potential outcome(s) impact on your activities and plans?
- Gather insights from PMR that could help shape discussions elsewhere
  - Summary will be prepared and made publically available
- Make recommendations for PMR future work program
Thank You

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