Comparison of different governance and institutional arrangements

Partnership for Market Readiness (PMR) Technical Workshop
» Different Market-based Approaches & Implications for a Future Carbon Market «

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Different carbon pricing instruments have different needs for governance and institutional arrangements
- Carbon tax
- Cap-and-trade instruments
- Baseline-and-credit instruments

Governance and institutional arrangements depend on a broad range of specific conditions
- The general institutional and legal framework of a specific country
- Governance traditions (and preferences)
- Political windows
- Specific (but extremely important) legal decisions
  - Legal nature of carbon pricing-related assets
  - Legal nature of non-compliance instruments

There are however some more generic lessons learned from existing and emerging carbon pricing policies
Institutional arrangements

- Generic issues
  - data monitoring, reporting & verification
  - compliance

- Specific issues
  - cap
  - baseline setting
  - allocation
  - trading
  - market transparency
• Strong links to legal arrangements and/or legal and political traditions exist and must be reflected
  – Range of issues directly ruled by legislation
  – Range of issues ruled by administrative acts
  – Range of issues delegated/left to private entities

• A clear separation, task and responsibility sharing is important
  – Rule-setting entities
  – Operating entities
  – Supervising entities
  – Regulated entities
The institutional dimension of carbon pricing
Generic: Data monitoring, reporting and verification

• Common experience
  – Quality and reliability of data collected within existing institutional arrangements did not meet expectations/requirements

• New institutional arrangements need to be found
  – Emissions (and other) data monitoring and reporting
    • methodological framework: guidelines
    • reporting: usually electronically (often piloting e-government)
  – Verification (in general: third party verification)
    • linking to existing verification infrastructures
    • specific methodological framework: guidelines
    • accreditation an oversight of third party verifiers is important
  – (Relatively) new challenges
    • confidentiality and data security of registries
    • synergies with other reporting (energy balances etc.) exist and could/should be addressed
• **Determination of compliance**
  – Consistency with the respective (general) institutional arrangements of a specific jurisdiction
  – Many different options
    • administrative acts by public entities
    • delegation to private entities

• **Penalization of non-compliance**
  – Often but not exclusively administrative acts by public entities
    • institutional arrangements for (and legal nature of) economic measures
    • institutional arrangements for other legal measures
Key institutional challenges

- Core of cap-and-trade or baseline-and-credit instruments and key determinant of its integrity
- Clear separation of responsibilities and processes for cap and/or baseline setting from distributional processes (allocation etc.) is urgently needed
  - with regard to institutional arrangements and/or
  - with regard to sequencing of decision making
- Needs to be under the (pro-active) auspices of a law maker or rule maker
The institutional dimension of carbon pricing
Specific: allocation and issuance

• Key institutional challenges
  – Clear separation of responsibilities and processes of rule making and implementation
  – Different nature of allocation and issuance needs to be reflected
  – Clear definition of the legal nature of allowances, allocation and issuance is key for many dimensions of institutional arrangements
    • taxation
    • market oversight
    • etc.
The institutional dimension of carbon pricing
Specific: trading

- **Key institutional challenges**
  - Arrangements for the market place
    - Decentralized/centralised approach
    - eligible participants
  - Taxation
  - Market oversight, liability and monitoring
    - allowances or credits as financial tools or commodities
  - Market transparency
    - centrally organized
    - decentrally organized
  - Market monitoring
  - Prevention of fraud
  - Using existing (market) rules and (market) procedures as well institutions and infrastructures – as far as suitable & possible
Thank you very much

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