

Post-2020 carbon markets: dinner and roundtable discussion

Summary

September 1, 2015

Bonn, Germany

INTRODUCTION

1. The World Bank and the Partnership for Market Readiness hosted a dinner and roundtable discussion on post-2020 carbon markets in Bonn on September 1, 2015. This note summarizes the discussions. The dinner was attended by 12 participants including carbon markets negotiators under the UNFCCC from PMR and other countries, and several experts. A list of participants is provided in the Annex.
2. The World Bank, through the Partnership for Market Readiness (PMR), is working with many countries who are building their readiness for carbon markets. As countries design and implement their market readiness activities a common consideration is the role for, and the likely scale of, potential international demand for their mitigation outcomes.
3. At the same time countries have or are in the process of putting forward their INDCs, and in some cases indicating their intention to use mitigation outcomes acquired from other countries towards their goals. The international community is also in discussions around the provision of climate finance and the role of markets as a means of delivering finance and leveraging other sources of finance.
4. The objective of the discussion was to build a better understanding of what the role and likely scale of international trade will be post-2020, taking stock of the most recent developments and countries intentions as indicated in their INDCs and plans to achieve them. It also provided an opportunity to discuss the role of international markets in delivering and leveraging climate finance.
5. The discussion was one in a series designed to provide PMR Participants and relevant experts an opportunity to engage in technical discussions on post-2020 markets. The objective of the series is to build knowledge on key technical market-related issues discussed at the international level; exchange views and facilitate a common understanding on how the carbon market will develop; to bridge the knowledge and experience gap between carbon market practitioners and negotiators; and to inform PMR activities accordingly. Information on previous discussions held in Santiago, (November 2014), London (March 2015) and Bonn (June 2015) can be found on the [PMR website](#).

SUMMARY OF THE ROUNDTABLE DISCUSSION

6. The discussions were focused around the following questions:
 - How important are market mechanisms as a vehicle to deliver climate finance?
 - Can the global environmental and climate finance goals be achieved without trade?
 - What are the limitations of international cooperation on mitigation without the possibility of international trade?
 - What scale is expected for international trade in the post-2020 period?
 - Are there other alternatives for mobilizing private sector finances that are as efficient as the market?
 - What possible role can the PMR play in supporting the future international work program on carbon markets?

Market mechanisms as a vehicle to deliver climate finance

7. Participants indicated that carbon markets are certainly an efficient way to incentivize low carbon investments since, with international trade of carbon assets, finance flows from one country to the other.

8. There were different opinions about whether carbon market flows are considered part of “climate finance” as being discussed at the international level. Participants discussed that carbon market flows do not negate the need for public financing. Some see a clear role for market mechanisms as a possible way to deliver even public climate finance.

Achieving the global environmental and climate finance goals without trade

9. Participants thought that the global environmental and climate finance goals could still be achieved without international trade of carbon assets, but that the latter would significantly increase the cost of achieving those goals. Ultimately this could increase the risk the goals may not be achieved. Also by lowering the costs, international carbon trading has the potential to support more ambitious goals.

Limitations of international cooperation without international trade

10. Participants argued that, inevitably, countries will cooperate with each other and that there are many different drivers and options for it. As more and more countries’ implement effective policies to reduce GHG emissions, many who are considering incentive based approaches, it makes sense that they might choose to directly cooperate through the linking of those policies. Market mechanisms also provide a transparent and measurable basis for cooperation that will be essential for many countries.

11. Participants also argued that while, technically, one could establish frameworks for commitments that would be equivalent to the use of markets (e.g. if countries’ commitments were defined as domestic action only and a further commitment was made to support action in other countries) these may not be as efficient and may restrict ambition.

Scale of post-2020 international trade

12. Participants indicated that they did not expect the scale of trade in the period to 2020 to be very large and that this is/will continue to have implications for the responsiveness of the market in the post-2020 period.

13. Most participants expect the prospects for the international carbon market beyond 2020 to be better. Several countries’ have already expressed an interest to use markets in their INDCs, including those wishing to buy and those intending to use market mechanisms to incentivize low carbon investments (sell) and support their sustainable development. Although it was acknowledged that many large jurisdictions have not indicated they would use markets to achieve their national contributions, so the scale of trade could remain somewhat limited.

14. Participants indicated that, looking even more long-term to beyond 2030, perhaps the scale of trade could increase even further, although supply could become much more restrictive as countries increase ambition over time.

Alternatives for mobilizing private sector finances

15. Participants discussed that there are many other climate finance options that can incentivize private sector resources in a country. These will need to be complemented by effective policy to get investment incentives right and carbon markets are increasingly being used by governments to provide those incentives. Participants discussed that international carbon markets are unique in that they allow for private sector resources to be mobilized to support low carbon investments in other countries. Experience has shown that the private sector is very effective at identifying low cost mitigation opportunities and that international market mechanisms have been a catalyst for this.

Role for PMR in supporting international efforts on carbon pricing

16. Participants discussed that the PMR could support international efforts on carbon pricing by:
- continuing to develop technical guidance and common practices that are anchored in the practical experiences in designing and implementing carbon pricing approaches;
 - continuing to support technical exchanges and discussions on the subject;
 - exploring how market mechanisms can be used/leveraged under different future scenarios of cooperation; and
 - exploring how market mechanisms can be blended with other finance and what implications this might have for design and readiness activities of countries preparing for carbon pricing.

List of Participants

Country/Jurisdiction	Name
Australia	Anthony Pearce
Chile	Matias Pinto
Norway	Leif K Ervik
Peru	Regina Ortega
Senegal	El Hadji Mbaye Diagne
Singapore	Muslim Anshari Rahman
Sweden	Elin Kronqvist
United Kingdom	Ben Lyon
Organization/Institution	
IEA	Christina Hood
UNFCCC	Massamba Thioye
UNFCCC	Andrew Howard
World Bank Group	Pauline Kennedy