

Post-2020 carbon markets: dinner and roundtable discussion

Summary

June 2, 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 June 2, 2015. This note summarizes the discussions. The dinner was attended by approximately 20 participants who negotiate on carbon markets under the UNFCCC from PMR and other countries. 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 with a view to having systems and mechanisms that are credible and potentially compatible for possible future international trade. At the same time, the international community has repeatedly called for assurances that any carbon assets traded internationally deliver real, permanent, additional and verified mitigation outcomes.
3. The objective of the discussion was to build a better understanding of what characteristics, approaches and requirements would be considered appropriate at the international level to support the trade of carbon assets. This understanding could assist PMR countries shape their current market readiness activities. The roundtable discussion provided an opportunity to discuss what the internationally agreed language means in practice for the design and implementation of carbon markets.
4. The discussion was one in a series designed to provide participants an opportunity to engage in discussions on post-2020 market issues that have relevance in the international debate. The objective of the series is to build knowledge on key technical market related issues discussed at the international level; exchange views and facilitating common understanding for how the carbon market will develop; to bridge the gap between carbon market practitioners and negotiators; and to inform PMR activities accordingly. Information on previous discussions held in London, March 2015 and Santiago, November 2014 can be found on the PMR website.

SUMMARY OF THE ROUNDTABLE DISCUSSION

5. The discussions were focused around the following questions:
 - What does it mean in practice for carbon assets to be real, additional, permanent and verified?
 - Are there any common definitions for these terms (e.g., as defined in the latest UNFCCC technical paper)?
 - What design characteristics are most important for determining the quality of a carbon asset (e.g., cap setting or baseline for crediting; system for monitoring, reporting and verification; registry, coverage and approaches to emissions leakage; measures to address the risk of reversal, compliance arrangements)?
 - Are there any common standards or current approaches that could inform good practice?
 - What criteria or minimum standards might apply to participation in trade?

- Are there any potential perverse incentives from international trade and how can these be managed?
- What information is needed about the market mechanism in order to make an assessment of the suitability of the carbon assets for international trade?

Common principles for trade and what they mean in practice

6. Parties have repeatedly agreed in the UNFCCC context that any market-based approach must deliver real, permanent, additional and verified mitigation outcomes. This language has also been adopted in some countries' INDCs to describe their planned use of international markets to achieve their national commitments post-2020. Participants indicated that this is accepted language that captures the shared vision for how carbon markets should function. At its most basic this is because Parties don't want trade in carbon assets to undermine or weaken the aggregate emissions outcome.

7. There was general agreement that the UNFCCC technical paper¹ provides a good reference for thinking more about what these general principles might mean in practice. As do the many submissions that various Parties have made over the years.

8. Discussions highlighted that it would be important to have shared principles at the international level but that it may not be helpful or even possible to define in the new agreement in detail how they should be interpreted or implemented. Some indicated that the intention is to have a lasting framework that can accommodate a broad range of actions, so being too prescriptive could in the end be limiting. Participants instead expect details of how these principles are applied to be determined in subsequent decisions and at the mechanism level. They would need to be negotiated for those mechanisms established and governed by the UNFCCC but for other market mechanisms could be matter for countries to determine. There was some discussion that negotiations between two or more countries who intend to trade will necessarily be much more detailed and in-depth than might be desirable at the UNFCCC level.

9. There was also some discussion about whether this language which makes sense in the context of crediting mechanisms applies in the same way to trade amongst ETS's or capped systems. After some discussion, most participants thought that the principles, concepts and ideas are relevant to all market mechanisms even if the application is different.

'Quality' of carbon assets

10. Different views were shared on how the 'quality' of carbon assets traded can be assured at the international level. This is because it goes to the fundamental structure or nature of the commitments made and agreement reached (i.e., the accounting and transparency aspects of the new agreement). While participants indicated there should be some form of accounting there were different views on how this might evolve. Most understood it will likely be something different from the common accounting approach adopted under the Kyoto Protocol.

11. Some argued that the nature of commitments and structure of the agreement might not lend itself to very strict international oversight of trade, including in regards to the credibility of the carbon assets traded. Instead these arrangements could be up to the trading Parties to work out and to determine

¹ FCCC/TP/2014/9

what is acceptable from their own perspectives. Perhaps these arrangements would be reported to the international community but there may be little scope to really do anything if other countries have questions about the integrity of those arrangements beyond trying to influence the trading countries to make improvements.

12. Others thought that more detailed guidance could be agreed at the international level that would provide greater oversight and set out in more detail the collective vision for how carbon markets should operate. This could include going beyond shared principles e.g., agreeing to minimum requirements for participation in trade, common registry systems etc.

13. Some argued that if there is not enough guidance or structure at the international level then trade could become even more difficult. Things like the common registry system and other assurances against double counting in the first commitment of the Kyoto Protocol were given as examples of elements of the international framework that actually helped support trade. The current concerns raised about double counting in the second commitment period where the relationship between the Clean Development Mechanism and the host country's voluntary commitment is unclear was used as an example to illustrate the difficulties of incomplete rules at the international level. Some participants raised concerns that if the international system leaves it up to each country to determine arrangements to avoid double counting, for example, it could become very complicated and difficult for countries to participate in trade which would ultimately discourage trade and increase the cost achieving the global goal.

Minimum or common standards

14. There was a suggestion that some minimum and common standards that go to the credibility of the carbon assets traded could also be determined at the international level to help countries with their mechanism design. For example, the possibility of positive lists or standardized baselines were discussed.

15. Participants indicated that regardless of the international rules Parties would always have flexibility to apply their own additional criteria or preferences to their trading arrangements. Selling countries would decide what if anything they are willing to sell and for what price, and buying countries will decide what they are willing to buy. Both sides of the trade could put their own requirements on top of the internationally agreed rules.

Important design characteristics

16. Participants discussed the design characteristics that would matter for determining quality. Participants indicated the cap setting or baseline for crediting would be a very important determinant of the quality of the resulting carbon assets. This would include not just the process for setting the cap or baseline but also the level of ambition imbedded. Some also thought that an understanding of how the cap or baseline relates to the global goal, the relationship with the countries' overall commitment, and views of comparability will play a part in any judgment about credibility of the carbon assets.

17. Participants also indicated that the underlying measurement, reporting and verification (MRV) system would be an important determinant of the quality of the carbon assets and one area where there is some convergence already amongst different countries' approaches. Although it was noted that there is potential for greater harmonization and understanding of differences. Participants noted the importance of MRV at the international level of countries' commitments but also recognized

arrangements at the mechanism/domestic level might be more detailed and stringent to facilitate the good function of the market.

18. Participants discussed that a registry to track the issuance and trade in carbon assets is essential whether this is through linked domestic registries or some form of international registry system. Some suggested that it makes sense to build on the system already in place at international level, even if this is to allow Parties an opportunity to use this on a voluntary basis going forward. Technically it may be desirable for countries who are now developing their registries to consider how these can connect to others to facilitate potential trade in the future.

19. A strong domestic legal framework to underpin the market mechanism, as well as the compliance arrangements, were also raised as important determinants of the credibility/quality of the carbon assets.

20. The coverage of the mechanism and measures to address potential carbon leakage were considered to be less important determinants of the quality of the carbon assets. Although some indicated they would want to be sure that any risk of leakage was not significant. Measures to address risk of reversal were considered of most importance for crediting mechanisms dealing with carbon sinks, but having limited relevance for many potential market mechanisms.

Sharing information about different market mechanisms

21. Participants indicated that efforts by countries who might trade in the future to explain the detailed design of market mechanisms as they are being designed and implemented at the country level would be very useful to inform the international discussions. It was discussed that buying countries would certainly want to know, in fine detail, the specifics of the mechanism they are buying from and that countries interested in potentially trading could usefully engage in direct conversation with potential trading partners early in their design process. Generally, providing information about the different design characteristics identified as key determinants of quality was considered to be helpful. This is something that the World Bank and the Partnership for Market Readiness could usefully facilitate.

List of Participants

Country/Jurisdiction	Name
Australia	Anthony Pearce
Belgium	Sophie Closson
Brazil	Marcelo Rocha
European Commission	Kelly Kizzier
European Commission	Martin Hession
Germany	Thomas Forth
Japan	Yuji Mizuno
Mexico	Monica Echegoyen
New Zealand	Penny Race
Norway	Peer Stiansen
Peru	Rocío García Naranjo
Senegal	El Hadji Mbaye Diagne
South Africa	Mandy Rambharos
Sweden	Ulrika Raab
Switzerland	Laurence Mortier
United Kingdom	Ian Trim
Organization/Institution	
CEPS	Andrei Marcu
IEA	Christina Hood
UNFCCC	Massamba Thioye
World Bank Group	Pauline Kennedy