Impacts of COP 21
Future of cooperation through markets

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Political Backdrop for Paris

- **Kyoto Protocol** introduced many countries to emissions trading
- **Copenhagen** kept CDM & JI alive for 2nd KP period plus pledge of Green Climate Fund – but demand slumped with recession
- **Durban** created a “Framework for Various Approaches” for future with a “New Market Mechanism” and a “Non-Market Mechanism”, but implementing rules never agreed
- **COPs in Doha, Warsaw and Lima** made little progress on future of either old or new UN market systems

- **Key issues for negotiators entering Paris:**
  - Could negotiating Parties unlock greater potential of INDCs by providing market policies, tools and access?
  - Who would offer leadership?
INDC’s Signal Interest in Market Cooperation

- **INDC Submitted**
- **INDC includes the use of International markets**
- **Country will consider using markets**
- **INDC Not Submitted**
Business “Asks” on Carbon Markets

The Business Fundamentals

- Many businesses understand imperatives of reducing emissions – and the economic challenges of a 2 degree temperature goal
- An efficient market-based approach built on cross-border cooperation could keep costs down, avoid economic shocks and help address competitiveness concerns

IETA Straw Man Offered a Simple Policy Structure

- Support for countries interested in cooperating through market links
- Rules to account for international emissions unit transfers and avoid double-counting
- Tools to accelerate links between carbon pricing systems, such as a central project crediting mechanism for sources & sinks (REDD +)
Article 6 – Key Provisions

1. Cooperative approaches through “internationally transferred mitigation outcomes” (para 2)
2. Rules for carbon market accounting, particularly avoidance of double-counting (para 2 & 5)
3. Sustainable development & mitigation crediting mechanism (para 4)

The Big Caveat: rules, modalities and procedures must due by 1st COP/MOP of Parties to Paris Agreement, but track record is mixed.
Market Provisions

• Enhanced cooperation through market linkages
• Accounting principles should drive integrity, legitimacy
• New mechanism (mitigation/sustainable development) available to all who want to use it
  • developed & developing countries
• Could be broader than mere crediting
  • Operates in context of all Parties implementing NDCs
• Includes direct & indirect references to REDD+ (Art. 5)
• NDCs reviewed every 5 years (Decisions 23 and 24) - helps provide clear signals of supply/demand trends
Political Momentum Stronger for Markets

- Success in getting an Article reflected hard work on carbon pricing over past 2 years
- Interest now extends beyond INDCs and Article 6
  - World Bank’s Partnership for Market Readiness and Carbon Pricing Leadership Coalition
  - Germany leading a new G7 carbon market platform
  - New Zealand declaration on carbon markets
## Two paths from Paris

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<thead>
<tr>
<th>Centralized Hub</th>
<th>Spin Off Club</th>
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<td>Decisions taken in COP 22 and 23</td>
<td>UN gridlock</td>
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<tr>
<td><strong>Trading hub</strong> follows GCF, CTCN models</td>
<td>Coalition forms</td>
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<td>Governed under COP oversight</td>
<td><strong>Trading club</strong> follows CCAC model</td>
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<td>Results in broad buy-in</td>
<td>Governed by users</td>
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<td>Results in narrow, but strong buy-in</td>
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Either a hub or a club need a simple set of rules to operate.

What can we learn from previous examples in developing a set of model rules?
Common building blocks for trading

- Common issuance process
- Registry & tracking service
- Market oversight system
- Standard sector baselines
- Reduction targets
- MRV standards
- Defined units of measure
- Compliance assurance
- Project crediting standards
The Case of CaliQue

- CA ETS
- MOU
- QU ETS
- WCI Inc.
- Joint Auctions
- Compliance Instrument Tracking System Service
- Offsets
- CAR, VCS, ACR
- Offsets ???
- Futures Exchange, Brokers
- Quebec Entities
- California Entities
- CAR, VCS, ACR
- IETA

Climate Challenges, Market Solutions
Quick analysis

- Essential UN function may be reporting (net imports, exports)
- Basic rules are similar inside or outside UNFCCC

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<thead>
<tr>
<th>Advantages</th>
<th>UN Hub</th>
<th>Independent Club</th>
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<tr>
<td>Broad fungibility</td>
<td>Owned by supporters</td>
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<td>Experienced team</td>
<td>Reduced barriers to adopt policy</td>
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<td>Build on existing tools</td>
<td>Pulls quality systems forward</td>
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<td>Enhance ambition for all</td>
<td>Domestic political/reputation</td>
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<table>
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<th>Disadvantages</th>
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<tr>
<td>Political interference</td>
<td>Limited fungibility</td>
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<tr>
<td>Bureaucracy</td>
<td>No existing institution</td>
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<td>Reputation</td>
<td>Potential start up pains</td>
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