IETA POLICY BRIEF:

Market Provisions for the Paris 2015 Climate Agreement

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Background

At IETA, we believe that the Paris Climate Agreement ("Agreement") will likely be a compact, foundational document, similar in length and scope to the authorities included in the UNFCCC ('the Convention') or the Kyoto Protocol. There will not be much 'space' available in the document to provide detailed instructions and mandates on the use of market-based emission reduction policies. Instead, the operational details will likely be developed in UN Decisions.

The Paris Summit occurs at an interesting juncture: over 40 Parties have either implemented or are developing carbon pricing policies at national or sub-national levels. In an ideal policy scenario, the Agreement should provide detailed guidance for those 40+ Parties (and others) on how their respective carbon pricing policies can be used in their intended nationally determined contributions (INDCs). Even better, it could include language that encourages Parties to cooperate with one another so that their carbon pricing policies could be linked and transfers of emissions reductions could be traded between jurisdictions/countries. Transfers and linkage of such policies would produce better economic performance, which could enable greater net emissions reductions than if Parties attempt to achieve emission reductions individually.

Considering these factors, IETA developed and implemented a thought-exercise with its member companies and several Parties from February to September 2014 to understand and identify the essential market provisions for the Paris Agreement. Our conclusion is that the **Agreement needs to include a unified international transfer system**, which Parties may use to transfer portions of their INDCs to one or more other Parties for compliance. This would govern all trades of international units in a single authority, and would operate more smoothly and transparently than an "anything goes" model.

Fundamentals

In order for Parties to achieve their adopted commitment of limiting global warming to 2°C, flexible market-based arrangements will be needed to achieve their INDCs cost effectively, helping to guard against severe economic disruptions in the future. **The Agreement must enable high-quality, reliable carbon markets to be available to promote emission reduction contributions that are cost-effective and ambitious**. The Agreement also needs to contain provisions that recognize the advantages of flexibility and mandate that Decisions be taken to deliver these advantages. Furthermore, the Agreement should anticipate and enable national mitigation pathways that utilize both emissions trading and project-based flexibility mechanisms. Established research[1] also shows that linkage of emissions trading and carbon pricing policies will reduce long-term abatement costs and help build institutional support for an international climate agreement.

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[1] See Stavins and Ranson 'Post Durban Climate Policy Architecture Based on Linkage of Cap and Trade Systems" (2012) here.

While there is broad authority for cooperative action in the UNFCCC, it offers no specific compliance structure or elaboration of how Parties should account and report on cooperative actions. This provides an 'opening' for the Agreement to offer a system whereby Parties may transfer portions of their INDCs with one another via a unified international transfer system.

The Key Elements

Five key policy elements are necessary to support robust contributions from Parties interested in using market instruments.

1. A unified international transfer system, which Parties may use to transfer portions of their defined national contributions to one or more other Parties for compliance with the Agreement. This would govern all trades of international units in a single authority.

2. Transfers would be tracked in the existing international transaction log (ITL) or a comparable system, expanded to cover a wider range of mitigation units. This would reduce costs for governments, as it builds on existing ITL infrastructure already developed and paid-for by the UNFCCC for Parties' use..

3. Total transfers and receipts would be recorded in national reports to the UNFCCC, which implies that more robust reporting requirements should be elaborated in the Agreement.

4. Market mechanisms, such as a reformed CDM and JI, REDD+ crediting systems, and bilateral offset crediting mechanisms, would be broadly available for Parties' voluntary use in meeting "contributions" under the Agreement – as elaborated in future COP Decisions.

5. Market infrastructure would be made available through the UNFCCC Secretariat in order for Parties to enhance their capability of participating in offset transfer mechanisms or emissions trading systems, incuding tools to enable, track and account for international transfers. This could be set out in future COP decisions.

Conclusion

The Paris Climate Agreement must provide language that encourages Parties to cooperate with one another in order for emissions reductions to occur at the scale needed to stay within a 2°C pathway, and for those reductions to be cost effective. The best way of doing this would be adoption of a unified international transfer system that would allow Parties to transfer portions of their INDC's with one another through carbon units of their choice. The Paris Climate Agreement should adopt language similar to that of the IETA Straw Proposal attached at Appendix 1 so that the 40+ Parties with carbon pricing policies in place or under development can scale them up and seek greater emissions reductions.

Appendix 1

IETA Straw Proposal: Market Provisions for the Paris Agreement

Preamble inserts

1. Recalling [Article 4 paragraph 2(A)(B) of the Convention] that Parties may implement such policies and measures jointly with other Parties and may assist other Parties in contributing to the achievement of the objective of the Convention;

2. Urging Parties to utilize the benefits of interconnected systems, founded on quality standards and transparent accounting, to enable the scaling up of policies and measures to meet the magnitude of the climate challenge.

Cooperation between Parties in realizing their Contributions

1. Parties may voluntarily cooperate in achieving their mitigation contributions, which may improve cost effectiveness and bolster ambition.

2. A unified international transfer system is hereby established.

    a. A Party may transfer portions of its defined national contribution to one or more other Parties through carbon units of its choice.

    b. Transfers and receipts of units shall be accounted for and recorded in equivalent carbon reduction terms in the international transaction log, or equivalent system, to assure integrity.

    c. Transfers and receipts shall be included in national reports as contributions delivered by the receiving Party and as transfers from the transferring Party.

3. The Conference of the Parties shall at its [XXrd] Session elaborate modalities and procedures for the operation of the unified international transfer system, including rules, modalities, measurement and verification standards, and reporting arrangements.

For more information, or to receive a full copy of the IETA Straw Proposal, please email Jeff Swartz, Director, International Policy: swartz@ieta.org

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