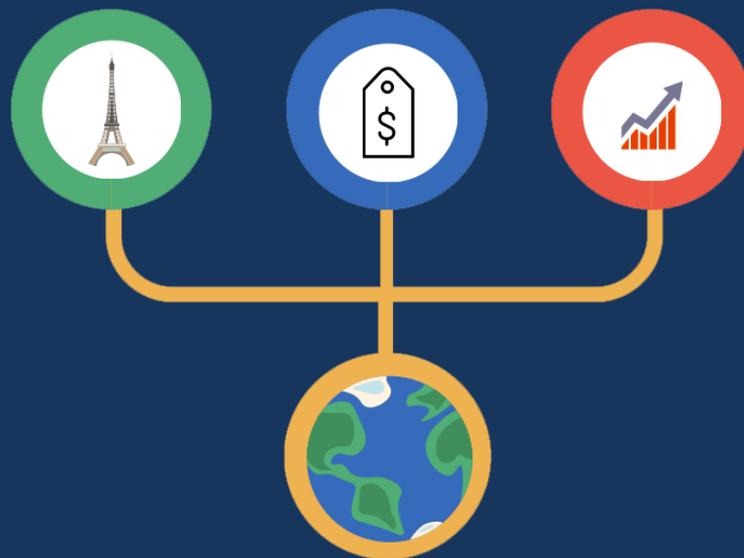


# The 2015 Paris Agreement, Carbon Pricing and Markets: Connecting the Dots

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**IETA**  
CLIMATE CHALLENGES  
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## The Paris 2015 Agreement and the INDCs

This year is arguably the most important year thus far for **climate action** worldwide. In December, governments will meet in **Paris** at the **United Nations Framework Convention on Climate Change's (UNFCCC) 21<sup>st</sup> Conference of the Parties (COP)** to discuss a global agreement to reduce greenhouse gas (GHG) emissions and tackle climate change. COP 21 will determine what global climate actions will look like in the years ahead. The declared goal is to reach a level of ambition that is able to ensure that global warming is kept below the IPCC's 2°C average.

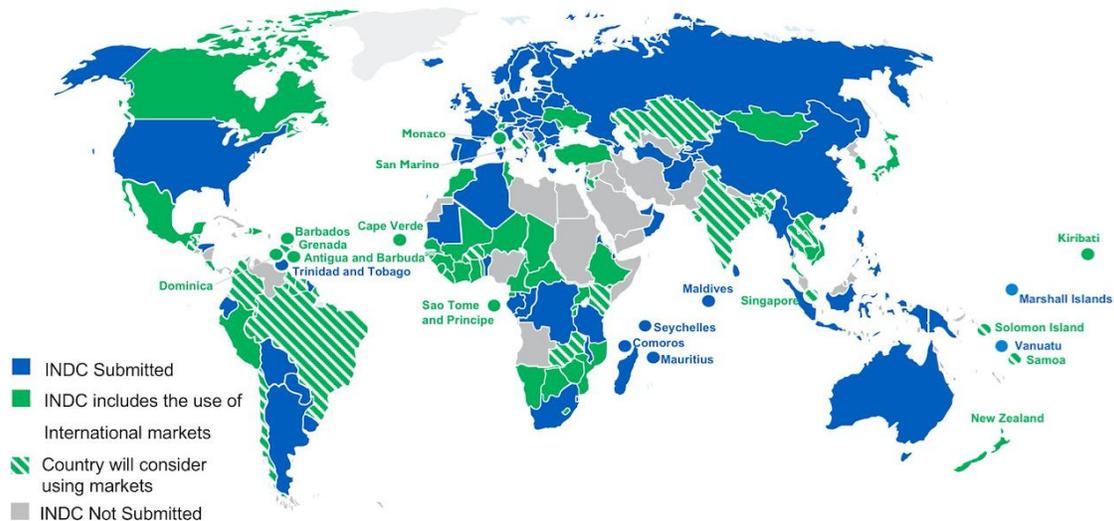
In the run up to COP 21, countries were encouraged to put forward their **Intended Nationally Determined Contributions (INDCs)**. An INDC can be seen as a statement outlining the level of commitment each government intends to make towards the overall goal, and how it will achieve this target. The very core of an INDC is constituted by the mitigation goal that each country is embracing, expressed in terms of GHG emissions reduction (or, in some cases, in terms of GHG intensity reduction).

To date, **155 countries have submitted their INDCs**, as represented by the map below. Several countries state in their INDCs that the level of commitment they are putting forward is conditional upon having **access to international carbon markets in the 2015 Agreement**. Overall, nearly 80 INDCs mention the use of markets. **The UNFCCC's INDC Synthesis Report, released on 30 October, also highlights the fact that over half of the INDC's submitted to date plan to use or are considering the use of market mechanisms.** This is crucial, for example, for countries that are fully industrialised and have high carbon abatement costs and for countries whose emissions originate in sectors with limited abatement opportunities because of technology constraints. Carbon markets not only bring a needed source of finance, but they also provide good governance and strong accounting frameworks that allow for technology transfers to be a win-win for both participants in a transaction.

Many observers expect INDCs to become the floor – not the ceiling – of the level of ambition that each country brings to COP 21 in Paris. Access to an **international carbon market** can enable countries to put forward **stronger commitments**, going beyond their domestic capabilities. Some INDCs specify that in addition to their domestic contributions, an additional level of reductions could be achieved with access to market-



based mechanisms such as the **CDM, REDD+** or other **bilateral or international market linkages**.



Nevertheless, the mitigation goal outlined in the **INDC** then needs to be **translated into concrete actions** contained in domestic **climate policies**, between now and the specified target year (2025 or 2030) in order for it to achieve actual emissions reductions.

Some countries already have a long history of successful carbon pricing policies. Most of the frontrunners began modestly and improved their systems over time. The early examples inspired others to follow with systems tailored to their unique needs. The following section looks at the state of play of carbon pricing worldwide.

## Carbon Pricing Around the World

An increasing number of jurisdictions are implementing **domestic climate policies** and, more specifically, are **pricing GHG emissions**. In most cases, **carbon pricing policies** take the form of an **emissions trading system (ETS)**, but some jurisdictions have also implemented carbon taxes. To date, 55 jurisdictions, including 35 national and 20 subnational jurisdictions, have implemented an ETS as a way to put a price on carbon. By early 2015, jurisdictions accounting for 40% of global GDP had introduced an ETS.<sup>1</sup>

The first major jurisdiction to implement a large-scale ETS was the EU, which launched the **EU ETS** in 2005. To date, the EU ETS is the world's largest in terms of scope and

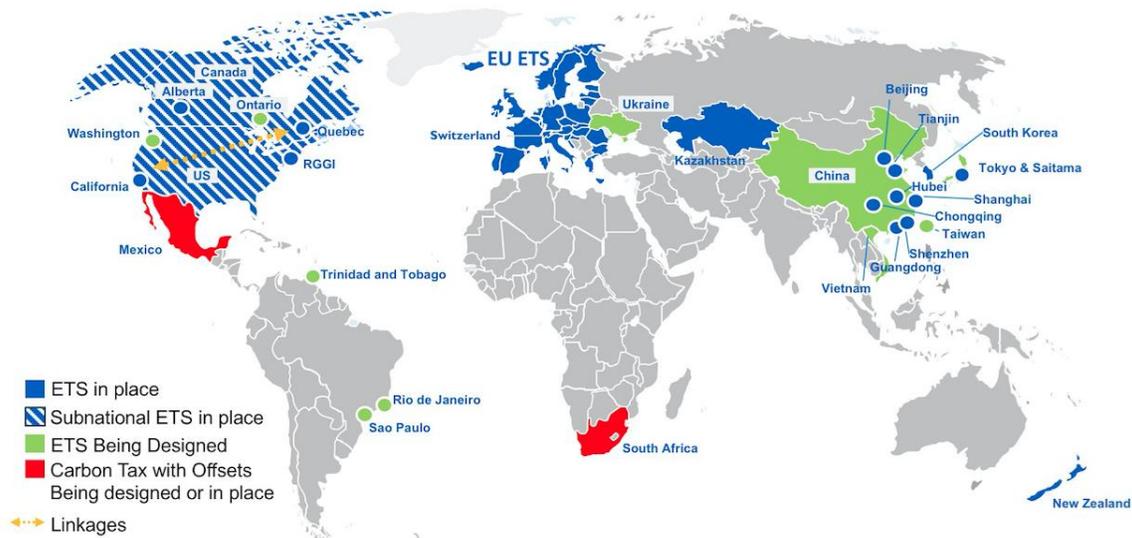
<sup>1</sup> [ICAP Status Report 2015](#)



covers over 11,000 installations across the 28 EU Member States plus Norway, Iceland and Liechtenstein.

In North America, [California](#), [Québec](#), [Alberta](#) and [nine north-eastern US states](#) (operating as the Regional Greenhouse Gas Initiative, or RGGI) have also set up an ETS. In Asia, [China](#) hosts seven regional systems and is preparing for a national ETS, while [South Korea](#), [New Zealand](#) and [Kazakhstan](#) have national emissions trading systems. [Switzerland](#) also has a robust ETS and is aiming to link its system with the EU market. A number of national and sub-national jurisdictions, in green in the map below, are currently in the process of designing an ETS.

Additionally, South Africa and Mexico have implemented or are in the process of implementing carbon pricing policies in the form of a carbon tax that can be partially offset through the use of carbon credits. Chile also adopted a carbon tax program in 2014. For more information on the World's Carbon Markets, please visit [IETA's website](#).



With South Korea's launch of its ETS in 2015 and China's recent announcement of plans for a national ETS in 2017, **emissions trading is gaining traction as the preferred type of carbon pricing policy** for many governments around the world, as summarized in the map above. Countries that are in the process of designing their own climate policies can draw from the success stories of carbon pricing worldwide, learning from both the achievements and the challenges.



## Carbon Pricing by Degrees: Linking

The Paris Summit could draw strength from the momentum towards carbon pricing in so many places. More importantly, it could establish a strong foundation for supporting market based approaches – and linkages between systems – far into the future.

In an ideal scenario, the Paris Agreement would provide detailed guidance to governments on how their respective carbon pricing policies can be used towards their national contributions. Even better, taking stock of what is already happening around the world, it could include language that encourages governments to cooperate with one another by linking their systems, to enable transfers of emissions reductions between their national programmes.

Market-based mechanisms and linked carbon markets attract investments where emissions reductions can occur at the lowest cost. This can accelerate clean energy investment at the scale needed to hold the average global temperature increase to 2°C. Carbon market linkages allow for cost efficiencies in emission reduction activities to be identified beyond borders, and assist in the implementation of an international framework for climate action. **The Paris Agreement must include language that encourages countries to cooperate in order to meet their mitigation commitments.**

Linkages and crediting mechanisms enable greater net emissions reductions than if governments attempt to achieve their targets in isolation. Access to markets could therefore enable countries to go beyond their INDC commitments – and at a lower cost. **An effective international framework could achieve a greater outcome than the mere sum of the individual contributions.** Therefore, transfers and linkages necessarily need to be part of the Paris Agreement if the world is to achieve the greatest achievable outcome at the lowest possible cost.

For further information on what IETA believes it should be included in the Paris Agreement, please see our [Paris Priorities paper](#).

Last Updated on 3 November 2015