Carbon markets, COP21, and clubs

Nat Keohane

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Finding the ways that work

Starting points

- Markets can drive greater ambition in climate action — if they have high integrity.
- In the post-2020 world, carbon markets will increasingly involve exchange (allowance trade) rather than one-way flows of offsets.
- A common market infrastructure could help

  … ensure market integrity in the short run, and

  … facilitate convergence or linkage in the long run.
- In the absence of a UNFCCC system, is there another way forward?

Top-down or bottom-up?

Kyoto model	**Laissez-faire**
Top-down	Bottom-up
Centralized	Decentralized
Rules-based	Domestic systems
Multilateral agreement	Bilateral linkages
UNFCCC oversight	No UNFCCC role

A middle-ground “minilateral” approach

Kyoto model
Top-down
Centralized
Rules-based
Multilateral agreement
UNFCCC oversight

Laissez-faire
Bottom-up
Decentralized
Domestic systems
Bilateral linkages
No UNFCCC role

Club approach
Decentralized
Rules-based
Plurilateral (or “minilateral”) agreement
UNFCCC common accounting rules

A club of carbon markets

- Purpose: to drive greater mitigation ambition by facilitating/encouraging international use of robust, high-integrity emission trading systems
- CCM would provide “common market infrastructure”
  - Standards and guidelines for ETS design
  - MRV framework to ensure integrity
  - Tracking of allowances (common/linked registries)
  - Common accounting rules (* if not provided in UNFCCC)
- Could facilitate sharing of information, technical advice, etc.
- Technical work could potentially feed back into UNFCCC process
- Over time, standards could provide basis for mutual recognition of carbon emission units among member jurisdictions

Roles of the UNFCCC in a club approach

1. Send political signal that market-based mechanisms have a future

➡ 2. Establish clear accounting rules to avoid “double counting/claiming” post-2020

Nat Keohane
nkeohane@edf.org
@natkeohane

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