MINISTERO DELL'AMBIENTE
E DELLA TUTELA DEL TERRITORIO E DEL MARE

Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety

CARBON MARKET PLATFORM

2ND STRATEGIC DIALOGUE
Rome, 27th-28th September 2017

CO-CHAIRS' SUMMARY

I. OUTCOME OF THE 2ND STRATEGIC DIALOGUE OF THE CARBON MARKET PLATFORM

The 2nd Strategic Dialogue of the Carbon Market Platform (CMP) took place in Rome from 27 to 28 September 2017 and was chaired by Francesco La Camera (Director-General MoE, Italy) and Karsten Sach (Director-General BMUB, Germany). More than 70 representatives from 17 countries and international organisations ICAP, IMF, OECD, UNFCC, UNEP, World Bank, participated in the meeting.

The aim of the 2nd Strategic Dialogue was to discuss the development of carbon pricing policies in light of the Paris Agreement. The following sections present a flashlight of the discussions the various inputs sparked among participants during the 2-day conference. [1]

1. International momentum for carbon pricing

The CMP acknowledged the growing international momentum for carbon pricing by inviting inputs from various initiatives, covering a variety of countries and sectors, as well as state and non-state actors. The input by Ottmar Edenhofer (Potsdam Institute for Climate Impact Research on behalf of the Carbon Pricing Leadership Coalition) stressed that international efforts should not aim at reaching a uniform global carbon price but rather focus on coordinating carbon pricing policies in order to achieve converging prices over time. Further, he acknowledged the importance of recycling carbon pricing revenues and the need for complementary measures in order to achieve national climate targets.

Gerrit Hansen (Germanwatch) pointed out that different sectors are increasingly working together on carbon pricing policies: business, civil society, and think tanks managed to come together in their respective G20 engagement groups (B20, C20, T20) to publish a joint statement in which they support carbon pricing policies, phasing out fossil fuel subsidies and enabling financial markets to deliver on sustainable development. Although many had hoped for stronger language on carbon pricing policies in the G20 and G7 outcome documents, participants agreed that it was a strong signal for the implementation of the Paris Agreement.

Jos Delbeke (European Commission) reflected these considerations in his presentation on the European emissions trading system: whereas concerns of industrial competitiveness and carbon leakage needed to be addressed, ratcheting up ambition was key for implementing Paris. There was a lively discussion among participants whether quantity or price based mechanisms were the best instrument for raising ambition in cap-

[1] The agenda, background papers and presentations of the 2nd Strategic Dialogue of the CMP can be accessed via http://www.minambiente.it/pagina/meeting-g7-carbon-market-platform-2nd-strategic-dialogue-rome-27th-28th-september-2017.

and-trade systems, with some arguing that reaching the cap was crucial and would be delivered by the system, and some showing concern over low prices and their insufficient inducement of low-carbon investments.

2. The role of carbon pricing in raising ambition

Following the discussion on international momentum for carbon pricing, the CMP analysed different options for raising ambition with carbon pricing instruments, with a focus on the role of international cooperation. Andrew Howard (KORU climate) presented various approaches and stressed that the main criteria for assessing rising ambition was the delta between current and future levels of ambition that are reflected in nationally determined contributions (NDCs). Therefore, the discussion was guided by the question how a carbon market framework could incentivize deepening and/or broadening the scope of NDCs. In this regard, participants highlighted that the Facilitative Dialogue (FD) should encourage parties to clarify scope, coverage, and timeframe of their respective NDC as this was the only way to assess whether ambition was raised or not.

What role for international cooperation? Some countries stated that cooperation of any kind should aim at raising ambition. Others argued that international cooperation should not be a “cheap way out” and, in cap-and-trade systems, caution should be given that only high-quality credits that ensure mitigation are used. Most agreed that linking cap-and-trade systems would not automatically raise ambition but preference should be given to internationally coordinating carbon pricing policies as well as calibrating them in a way that allows for raising ambition. Participants agreed that it should be investigated how the CMP could contribute to the FD.

3. Effective carbon prices: fossil fuel subsidies

Whereas raising ambition via international cooperation is crucial for reaching the target set out by the Paris Agreement, on the domestic level, carbon pricing policies need to be aligned with the wider policy environment to take full effect. With inputs from Shang Baoping (IMF), Venkata Ramana Putti (World Bank), Joy Kim (UNEP), Kurt van Dender and Ron Steenblik (both OECD), the CMP acknowledged that negative carbon prices, i.e. fossil fuel subsidies, should be given particular attention. Phasing out fossil fuel subsidies and designing additional national climate policies in a way that does not impair existing carbon pricing policies was considered essential for generating effective carbon rates. In particular, the implementation of comprehensive fiscal reforms aimed at shifting taxation from labour and capital to assets and environment was discussed.

Those “green fiscal reforms” aim at removing special tax provisions that are environmentally harmful and economically inefficient; restructuring energy and vehicle taxes so that they better reflect environmental externalities including greenhouse gas emissions; and reforming existing, or introducing new, environmental taxes on resource use and pollution (e.g. on water abstraction, wastewater discharges, pesticides, fertilisers and packaging materials). Some countries remarked that fossil fuel subsidies are sometimes regarded as generating positive social externalities and efforts to phasing them out need to take this into account, e.g. by introducing appropriate revenue recycling schemes; alternative policy instruments for social policies are always available.

4. Overcoming barriers for implementing carbon pricing policies by international coordination

Whereas day 1 of the conference focussed on presenting the opportunities carbon pricing policies entail for raising ambition and ways how to strengthen effective carbon rates, day 2 started by addressing existing barriers for implementing carbon pricing policies. Andrew Prag (OECD) identified four main barriers (see also his background paper): concerns over industrial competitiveness; impacts on poorer households; government capacity for implementation; and broader policy misalignments. Specifically, the "carbon entanglement" of governments, i.e. their dependence on fossil fuel revenues in their national budgets, was described as an important problem.

Some countries reported their strategies on how those barriers could be overcome, e.g. by introducing socially just revenue recycling schemes or accounting for carbon leakage, e.g. by including exceptions for certain industries in the respective regulation. It became clear that linking carbon pricing systems could, in theory, solve wide-spread concerns over industrial competitiveness. However, participants stressed that this should not be the only objective of international cooperation, but countries should try to coordinate their carbon pricing policies. Here, measures such as agreeing on principles or the removal of misaligned policies, indirect linking via common offset standards, coordination of design questions (such as, e.g., regarding monitoring, reporting, and verification), or fostering price convergence can be described as increasingly extensive levels of coordination, preparing the way for ever more ambitious options. The CMP agreed that the OECD should further analyse how coordinating carbon pricing policies could be brought forward in detail and how the CMP could have an active role in these efforts.

5. Environmental safeguards for carbon pricing instruments

The last session of the Strategic Dialogue focused on environmental safeguards for carbon pricing instruments. The discussion was framed from a countries' perspective in order not to duplicate negotiations under the UNFCCC. The input by Nathaniel Keohane (EDF) stated that environmental integrity of cooperative approaches depended on the partners involved, the domestic programs generating emissions reductions and the transaction costs. In support of the discussion, the state of play of the New Zealand Declaration group regarding the elaboration of principles for environmental integrity in international carbon markets was presented.

Countries agreed that environmental safeguards are crucial for the credibility of international cooperation. The core element of environmental integrity is to safeguard the reduction of global emissions. It was highlighted that the CMP can play an important role in building bridges between technical and political issues and spreading political messages to foster the robust and sustainable development of carbon markets internationally. It was agreed that the CMP should continue to foster exchange on this issue.

II. THE WAY AHEAD

Many participants formulated concrete proposals on the strategic role of the CMP: it was highlighted that it should prepare **strategic inputs** to ongoing negotiations and be cognisant of not doubling them, foster an **exchange of experiences among governments**, facilitate the **increase of ambition** with the help of carbon pricing instruments, and offer a forum for **"quality pioneers" for carbon pricing**.

Co-Chair 2018: **Canada** announced to host the **3rd Strategic Dialogue of the CMP in 2018**. According to the agreed concept of the CMP, Germany will continue to co-chair for 2018.

Topics for the next CMP meeting: Participants agreed that it would be worthwhile to continue a discussion on i) possible levels of international coordination of carbon pricing policies, ii) environmental safeguards for carbon pricing instruments, iii) the role of role of carbon pricing in raising ambition, as well as iv) exploring synergies of climate finance and carbon pricing instruments for successful NDC implementation. Both co-chairs for 2018 will investigate other potential topics to ensure a fruitful discussion at the next Strategic Dialogue of the CMP.

Technical support: The **OECD** will continue its support to the CMP in 2018. It was discussed that the OECD should explore how the CMP could prepare an **input to the FD** once the work program will have been announced at COP23. The co-chairs (2017 and 2018) may also consider initiating a working group with interested countries to further elaborate on this issue. Furthermore, the OECD will be asked to work out the details on different **possible levels of international coordination on carbon pricing**. This work should be guided by the question what is needed for building trust among countries and businesses, safeguarding quality and increasing economic advantages of instruments including the mapping of international initiatives which aim at coordinating carbon policy.

Side Event at COP 23: In the German Pavilion the side event **"Coordinating Carbon Pricing Policies"** will take place on 9 November 2017, 10.00-11.30am. The side event will explore different levels of international coordination of carbon pricing policies. Representatives from businesses, NGOs and governments will discuss what level of coordination is needed to facilitate the implementation of carbon pricing policies that are in line with the Paris Agreement. **Carbon Market Platform members are very welcome to contribute to the discussion at the event**.

III. BACKGROUND INFORMATION: THE CARBON MARKET PLATFORM

At the **G7 Summit in Germany in June 2015**, the G7 emphasized that deep cuts in global greenhouse gas emissions are required with a decarbonization of the global economy over the course of this century. Given that effective carbon policies are key climate policy instruments to reduce emissions cost-efficiently and at large scale, while having a broad variety of approaches all around the globe, the G7 leaders decided to establish the **Carbon Market Platform**.

The aim of this political forum is to facilitate a **strategic dialogue** between governmental actors and to allow for new cooperative and common approaches to be developed with the aim of applying effective policies and actions throughout the global economy, including **carbon market-based and regulatory instruments**.

In 2017, the Carbon Market Platform was jointly chaired by Germany and Italy and its Second Strategic Dialogue, at director general level, was part of a week of meetings on carbon markets in September in Rome hosted by the Italian Ministry of Environment, Land and Sea under the G7 Presidency.

Furthermore, in Bologna in June 2017, the G7 Environment Ministers, High Representatives, and European Commissioners responsible for environment and climate reiterated the important role of carbon pricing in tackling climate change, including market-based approaches, and welcomed the second Strategic Dialogue of the Carbon Market Platform.

IV. List of Participating Countries and Organizations at the 2nd Strategic Dialogue

Australia

B20/C20/T20

Canada

Chile

CPLC (Carbon Pricing Leadership Coalition)

EDF (Environmental Defense Fund)

European Commission

France

Germany

ICAP (International Carbon Action Partnership)

IMF (International Monetary Fund)

Indonesia

Italy

Japan

KORU climate

New Zealand

OECD (Organization for Economic Co-Operation and Development)

Panama

Poland

Senegal

Switzerland

Ukraine

UNEP (United Nations Environment Programme)

UNFCCC (United Nations Framework Convention on Climate Change)

United Kingdom

Vietnam

World Bank