

Raising ambition through international carbon markets

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2nd Strategic Dialogue of the Carbon Market Platform

**Koru
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Overview

What does ambition raising via markets mean?

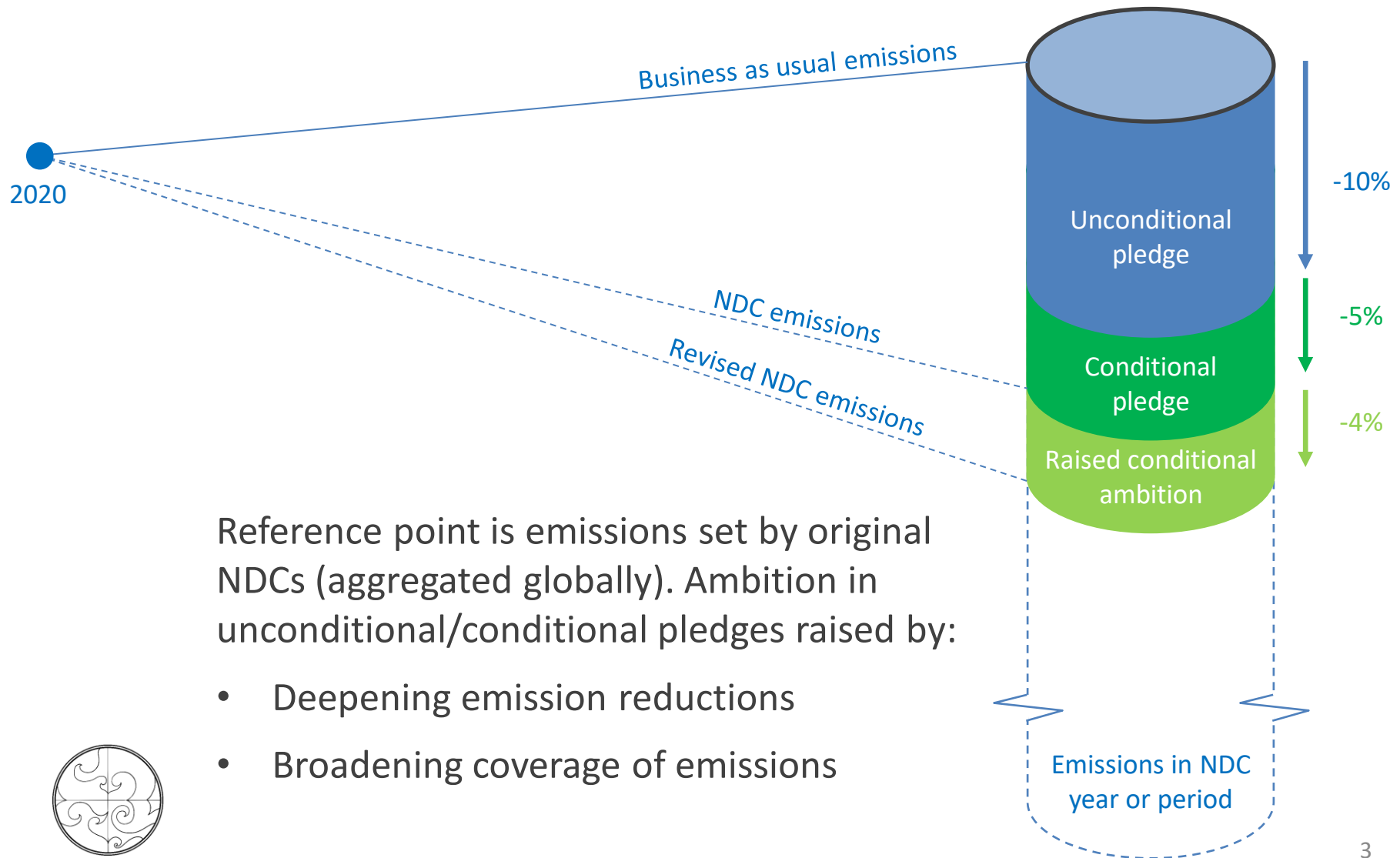
What are practical options for raising ambition?

1. Stronger compliance obligations supplied through markets
2. Government cooperation with long-term transfers of reductions
3. Government cooperation to support long-term NDC expansion
4. Strengthening voluntary market demand beyond NDC achievement
5. Apply “overall mitigation” measures to all carbon markets

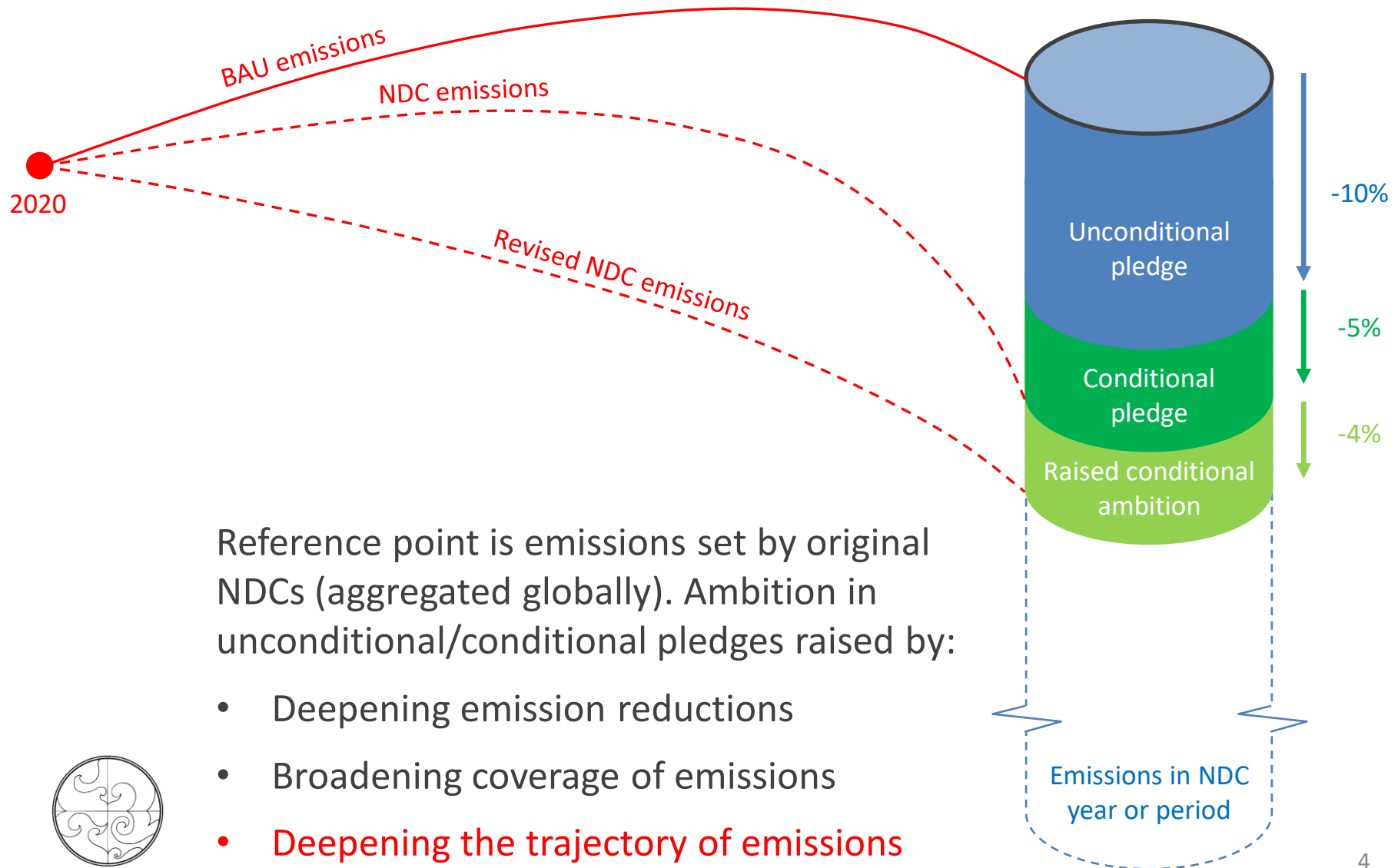
Where can international collaboration help?



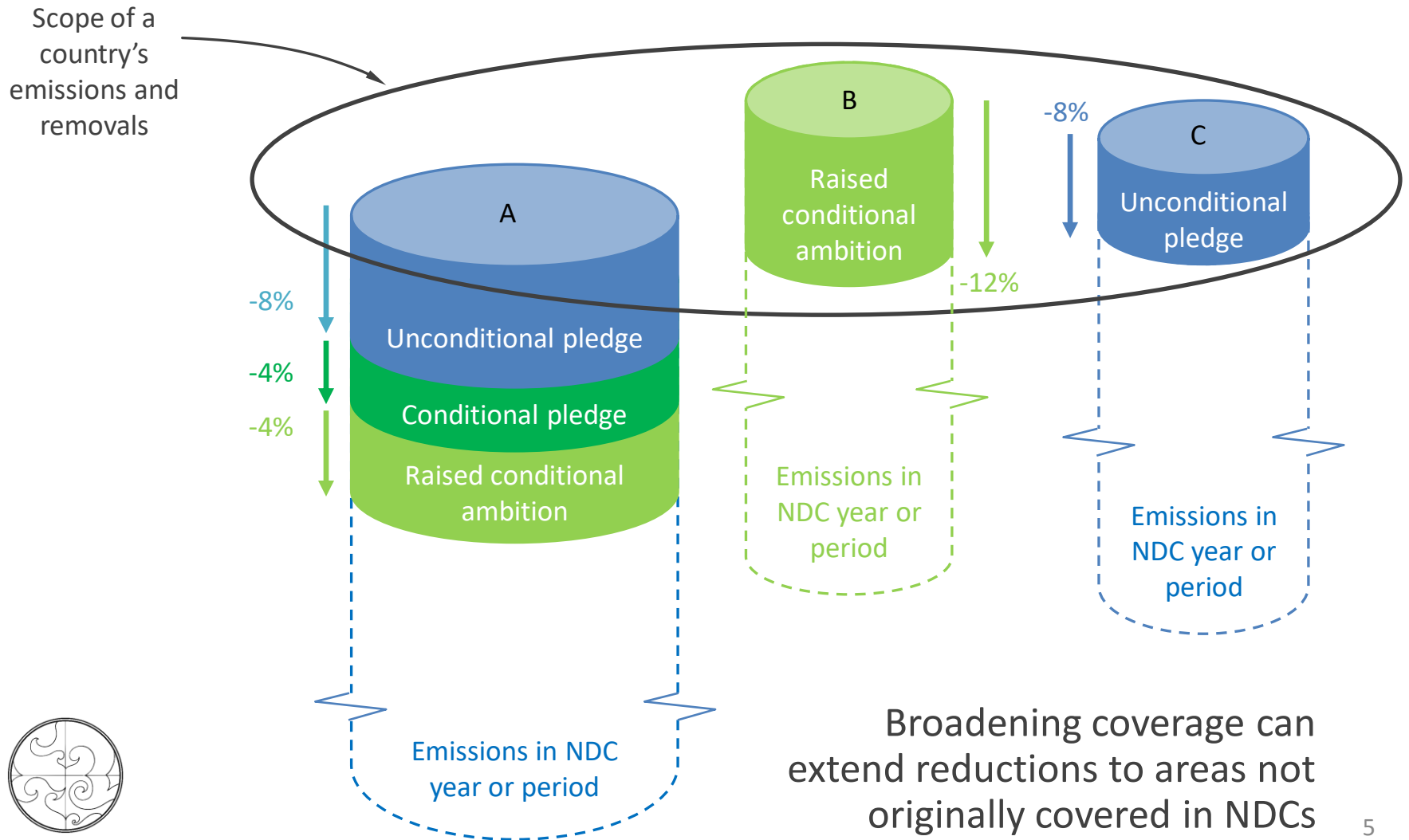
Meaning of ambition raising via markets



Meaning of ambition raising via markets



Meaning of ambition raising via markets when NDCs are not economy wide



Option 1: Stronger domestic compliance obligations supplied through markets

- Efficiency of market approaches allows stronger domestic policies
 - Deeper emissions trading system (ETS) targets
 - Higher carbon taxes with integrated offset provisions
- May also allow emitters to meet higher obligations in full or in part through emission reductions acquired internationally

Direct translation of political will into greater reductions – raising demand has more direct impact on ambition than raising supply

Tools, capacity and regulatory structures often already in place

Calibrating domestic policies to meet NDC targets in full allows international acquisitions to be directed into NDC over-achievement



Option 2: Government cooperation with long-term transfers of reductions

- Government-to-government (G2G) cooperation
 - Generate and transfer a portion of reductions to a partner country
 - Focus on areas with barriers to private sector investment
- Ensure political partnership and technical support
- Bilateral/multilateral basis, or through international institutions

Can be integrated with broader support for low emissions development or non-climate goals

Can calibrate domestic policies to fully meet NDC, so international acquisitions go into NDC over-achievement

G2G cooperation provides for sharing of emission reductions between countries



Option 3: Government cooperation to support long-term NDC expansion

- G2G support designed to support developing countries integrate new mitigation actions into the scope of NDCs over time
 - Initial kick-start support via short/medium term crediting
 - Activities become unconditional pledges in subsequent NDCs, with emission reductions accruing only to the developing country
- Blend in up-front climate finance to reduce private sector risk
- Additional technical support to develop new activities and ensure coverage in emissions inventories and NDC accounting

Opportunities
for joint political
leadership
across countries

Inclusion in
accounting
overcomes
disincentive to
expand NDCs

Viable alternative approach
to a ban on transfers of
emission reductions from
outside the scope of NDCs



Option 4: Strengthening voluntary market demand as reductions beyond NDC achievement

- Facilitate voluntary drivers of demand such as corporate social responsibility and offsetting of carbon footprints
 - Provide government recognition of mitigation
 - Report to the UNFCCC as NDC over-achievement
- Ensure voluntary uses of emissions reductions are made distinct from other reductions that are accounted towards NDCs

Ensures voluntary use of reductions does not displace reductions that would otherwise be driven by domestic compliance instruments and NDC achievement

Recognizes and nurtures motivated private sector partners in growing their mitigation ambition

Can calibrate domestic policies to fully meet NDC, so international acquisitions go into NDC over-achievement



Option 5: Apply “overall mitigation” measures to all carbon markets falling under Article 6

- The commitment to go “beyond offsetting” in Article 6.4 could be applied to some or all transfers under Article 6.2
- Lowering the proportion of emission reductions being used as offsets increases the mitigation achieved through markets
- Discounting when issuing or using credits ensures the overall mitigation is quantified and can be appropriately reported

Markets directly reduce emissions, instead of only reducing mitigation costs

Can enhance the political acceptability of carbon markets

Governments can absorb the burden of un-used emission reductions and share it by strengthening other domestic targets



Common measures

- After making NDC pledges ambitious and calibrating domestic policies to achieve them, countries can use international markets to reduce emissions further and **over-achieve NDCs** (without risk of not achieving the formal NDC pledges)
- Acquiring reductions from outside the scope of NDC pledges requires extra care to give assurance of the quality of reductions – best provided by **independent oversight** not linked to the country
- **Assessing countries' NDCs and policies** can preserve the effect of raised ambition – by ensuring no “hot air” is transferred and that robust systems ensure reductions are real and lasting
- A reduction **need not be transferred** to have increased ambition
- Approaches to raise ambition are **complementary** and can reinforce incentives to deepen and broaden ambition



Roles for international collaboration

- **Guidance and best practices** to help the clarity of NDCs
 - Robust estimation of BAU emissions and impacts of actions
 - Clear goals, including their coverage of emissions and removals, timeframes for implementation, and emission trajectories over time
 - Clear information on domestic measures to implement NDCs
 - Clear distinction of unconditional and conditional actions
- Provide for **independent international oversight** through standards, processes and institutions of Article 6.4, or through their use as an international benchmark for other systems
- Gather **political momentum** for raising ambition
 - Facilitative Dialogue (2018) and subsequent Global Stocktakes
 - Smaller "clubs" of countries with common interests and incentives that may establish high-ambition criteria for members to follow



Concluding thoughts and questions

Ambition approaches can serve political will, but cannot create it
UNFCCC can set basic conditions for raising ambition – clubs can have special commonality of purpose to pursue greater ambition

Next year's facilitative dialogue is a key opportunity to clarify and strengthen NDC goals, revise BAU emissions, and distinguish more clearly between unconditional and conditional actions

Progress on market accounting must be embedded in NDC accounting

Questions for consideration

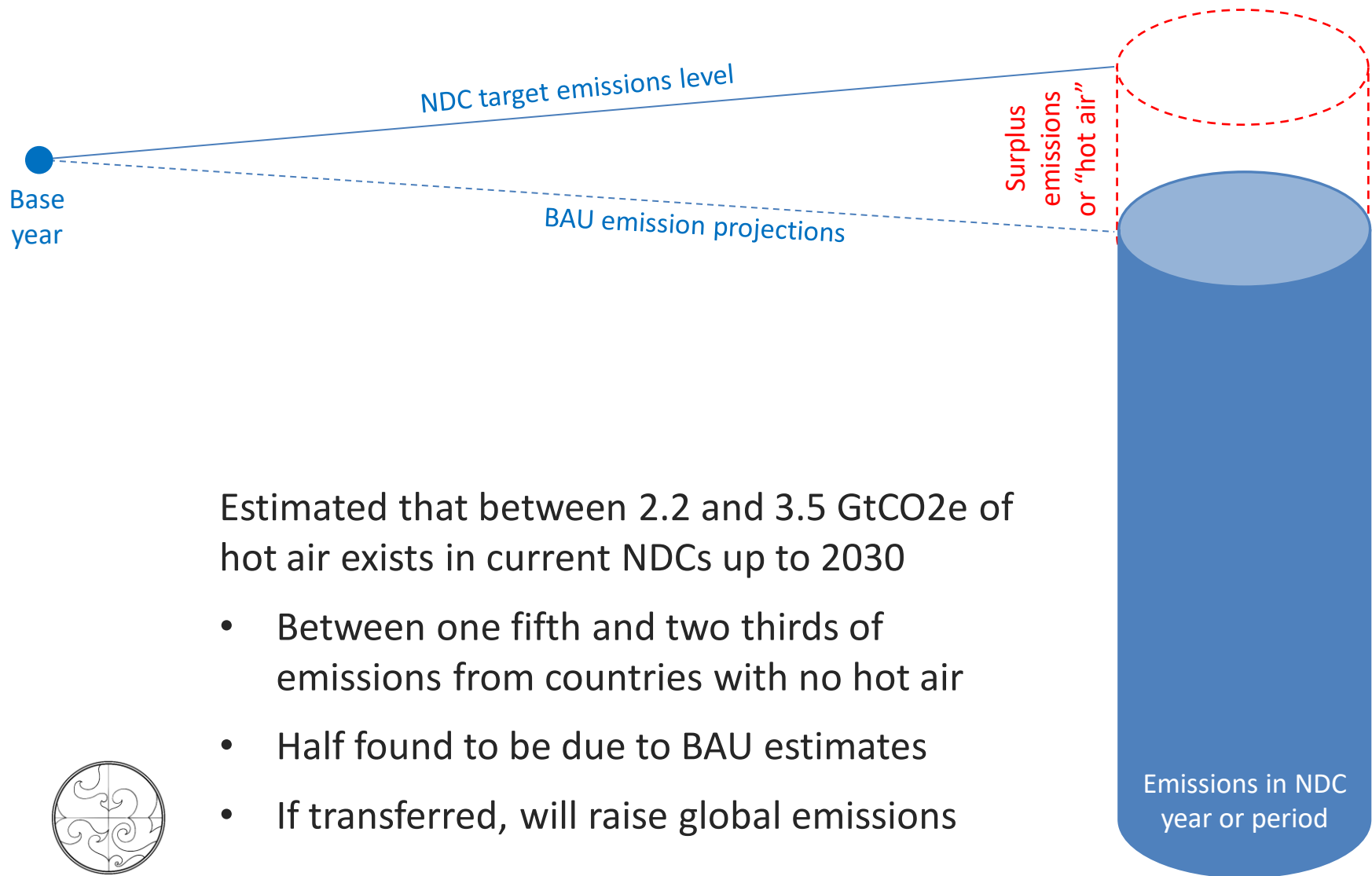
- **How can carbon markets and international cooperation incentivize the deepening and broadening of NDCs?**
- **How can countries and the Carbon Market Platform contribute to the Facilitative Dialogue in 2018?**



Backup slide



Surplus emissions or “hot air” in NDCs



Estimated that between 2.2 and 3.5 GtCO₂e of hot air exists in current NDCs up to 2030

- Between one fifth and two thirds of emissions from countries with no hot air
- Half found to be due to BAU estimates
- If transferred, will raise global emissions

