

Networked Carbon Markets

The Networked Carbon Markets (NCM) initiative is a key component of the World Bank Group’s long term efforts to promote and enable carbon pricing, and complements on-going work to assist countries in designing and implementing carbon pricing systems. It does not advocate for “a global carbon price” – but for putting “a price on carbon” - recognizing that carbon assets from different climate mitigation efforts will have different climate change mitigation values and prices. The end-goal is a connected international carbon market that has liquidity, scale and the foundation for a long term, stable price on carbon. To date, the NCM initiative has launched a global discussion on the post-2020 services and institutions that might be needed for a connected international carbon market in the future.

The NCM Initiative is collaboratively designing a blue print for post-2020 carbon markets.

- Around the world, countries are developing different ways to put a price on carbon to fight climate change. This heterogeneity is important in terms of addressing domestic need and innovation. However, it has also led to a certain amount of regulatory fragmentation across jurisdictions, which has made it increasingly complex to track progress, compare achievements, and link actions across jurisdictions. While efforts to share information and experience will continue to be valuable inputs to domestic decision-making, ultimately each government is, and will continue to, make decisions based on what is the best fit for its specific situation.
- The NCM Initiative is exploring how a future international carbon market could accommodate a ‘patchwork’ of different, domestic climate actions. The end-goal is to develop the services and institutions needed to enhance transparency, comparability, and fungibility of heterogeneous climate actions, for a connected international carbon market that is liquid and delivers climate-smart financing more efficiently.
- The key components of the NCM initiative are intended to be compatible with a range of possible outcomes from a future international agreement under the United Nations Framework Convention on Climate Change (UNFCCC). It could also provide the services and institutions needed to facilitate linking and incentivize more ambition, within and between different types of carbon clubs, or other regional and bilateral linking arrangements outside of the UNFCCC.
- Current research suggests four principles for evaluating possible metrics for comparing heterogeneous mitigation effort¹. First, an ideal metric should be *comprehensive*, capturing the entire effort undertaken by a country to achieve its mitigation commitment. Second, a metric should be *observable*—and preferably quantifiable—characteristics of effort. Third, individual countries or stakeholders should be able to *reproduce* a metric given (a) the inputs used by analysts, and (b)

¹ Joseph E. Aldy and William A. Pizer, “Comparability of Effort in International Climate Policy Architecture,” Discussion Paper 2014-62, Harvard Project on Climate Agreements, January 2014,

available public information. Finally, given the global nature of climate change, a metric should be *universal*, constructible by and applicable to as broad a set of countries as possible.

The NCM initiative recognizes that carbon assets from different climate mitigation efforts will have different climate change mitigation values and prices.

- Robust metrics that meet the criteria above are crucial for ensuring that Governments and market players have the information they need about the schemes that they could potentially link with, or may already be linked with.
- What is also important, is ensuring that Governments and market players also understand how these differences affect the mitigation value of the carbon units that are generated by these schemes, over time. Without this knowledge, a Government may unknowingly over-state actual emission reductions from the carbon units they import.
- Governments could choose to consider mitigation value to monitor the implementation and enforcement of carbon schemes among its existing trading partners. This may particularly benefit jurisdictions that lack the resources to be able do to this themselves.
- Governments could also choose to consider mitigation value to avoid the complex negotiations that are needed in order to harmonize different schemes such that carbon units all trade on a 1:1 basis. This is because it ensures that differences in value would be properly accounted for and, therefore, that the environmental integrity of a stronger program would remain even if it was linked to a scheme that is less stringent or ambitious. It could, therefore, allow trade between markets such that they maintain their original, different designs. The advantage of this approach is that it allows more schemes to participate in an international carbon market, while still preserving the environmental integrity of trade.

The NCM initiative is collaborating with a range of partners to develop its key components

The NCM initiative requires (i) a transparent, reliable, efficient approach to providing the information needed to determine the relative climate change mitigation value of units to be traded internationally, (ii) infrastructure to assist jurisdiction to manage carbon market related risks and track international exchanges. Corresponding to these requirements, the key components of the NCM initiative are:

	Component	Partners
1	<p>Independent assessment framework to determine the climate change mitigation value of carbon assets and enable their fungibility in the international market.</p>	<ul style="list-style-type: none"> • IISD • NewClimate Institute • DNV GL • International Standards Organization • Climate Transparency consortium, which comprises: World Resources institute, Yale, Climate Works, NewClimate Institute, Germanwatch
2	<p>Supporting infrastructure:</p> <ul style="list-style-type: none"> • International Carbon Asset Reserve to support and facilitate carbon market related functions. • International Settlement Platform to track cross-border trades and possible clearing house function. 	<ul style="list-style-type: none"> • INFRAS • Grantham Institute of Climate Change • IDEACarbon
3	<p>Outreach and concept development</p>	<ul style="list-style-type: none"> • Harvard Project on Climate Agreements • Climate Strategies • International Emissions Trading Association • Climate Markets and Investment Association • Center for International Research on Environment and Development

Role of the World Bank Group

Since March 2013, the WBG has launched a global discussion and prompted alternative visions about the services and institutions needed to connect carbon pricing systems in the future. It has held extensive stakeholder consultations on NCM which have included two international Working Group meetings comprising representatives from the United Nations Framework Convention on Climate Change (UNFCCC), private sector, developed and developing country governments, academic analysts, non-government organizations, foundations and intergovernmental organizations. It is not envisioned that the WBG would play a role in assessing jurisdictions. Rather, it seeks to convene stakeholders, develop general principles, help pilot early stages and promote compatibility with UNFCCC negotiations and agreements. NCM complements the World Bank Group’s ongoing low-carbon development activities and its efforts to promote carbon pricing as critical to achieving climate mitigation in an effective and cost-efficient way.

Next steps

Work planned to June 2016 includes coordinating, facilitating and organizing initiatives that assess climate mitigation efforts through partnerships; an analytical work program focused on the design of methodologies, case studies, and concept development; and stakeholder consultations and outreach. It also involves developing knowledge products to explore how potential institutional structures can enable the key components to enhance the flow of finance toward the ongoing effort to limit global warming. The NCM team is collaborating with a wide range of stakeholders to progress its work plan and enhance and mainstream its concept development.