

---

# GLOBALY-NETWORKED CARBON MARKETS

---

2ND WORKING GROUP MEETING  
FEBRUARY 12-13, 2014 -- WORLD BANK OFFICE, PARIS

## KEY POINTS AND NEXT STEPS

---

---

The second “Working Group Meeting on Globally-Networked Carbon Markets” took place in Paris, February 12-13, 2014. This 2 day meeting brought together individuals from private sector and industry associations, developed and developing country governments, think-tank and academic institutions, NGOs and multilaterals. The participation list is attached.

### Meeting Context

- The Second Working Group meeting was held in the context of broad endorsement for the World Bank to continue to convene a discussion on Globally Networked Carbon Markets at the First Working Group meeting in September 2013.
- At the first Working Group meeting, two task groups were established to provide inputs on two of the key elements of the Globally-Networked Carbon Markets (GNCM) idea, namely: Carbon Asset Rating and the International Carbon Reserve (ICAR). The Task Groups provided input and feedback on the respective work programs, in the lead up to the Second Working Group meeting.

### Meeting Objectives

The Second Working Group meeting was intended to provide an opportunity for:

- Further brainstorming about the form, scope and benefits of the key elements of the GNCM idea, building on the progress achieved at the First Working Group meeting.
- Definition of next steps in order to progress the key elements of the GNCM idea, including through: defining key questions, analytic work, further stakeholder consultations, and how to move to piloting.
- Discussion about how the key elements of the GNCM idea interact with the UNFCCC-led negotiations and possible outcomes of a Paris Agreement at the 21st Conference of the Parties in Paris, in 2015.

## Overview of Main Points

- The logic of a common framework for assessing climate change mitigation value as the foundation for creating fungibility among a range of carbon asset types and connecting heterogeneous carbon markets was recognized.
- The view that the relative mitigation value of an asset in an international carbon market is dependent on both program and jurisdiction-level considerations was generally acknowledged. There was discussion of the concept that for an international carbon market to develop – beyond transactions based on political or strategic bilateral or ad hoc considerations – the relative mitigation value of carbon assets will need to take into account not only the quality of the program generating the emission reduction assets, but also the jurisdiction-level target and progress.
- It was agreed that establishing an efficient way of finding the relative value from a climate change mitigation point of view of various carbon assets will be important in moving toward a global carbon market or globally-networked carbon markets characterized by a variety of carbon asset types and heterogeneous market designs.
- Many participants agreed that the rationale and elements of a rating approach could potentially provide an efficient approach to determining the relative climate change mitigation value of various carbon assets, if demonstrated to be financially, technically and politically feasible.
- The approach presented and discussed for rating the climate change mitigation value of carbon assets includes the following components:
  - Program-level Rating: “what is the risk that the program will not achieve its stated carbon emission reduction target?”
  - Credibility Rating of jurisdiction’s own stated climate change mitigation target or pledge: “what is the risk that the jurisdiction will not meet its stated mitigation target?”
  - Ambition adjustment – “Is the jurisdiction’s own target ambitious enough?”
- The assessment of whether a program will deliver net reductions and whether a jurisdiction will achieve certain objectives, necessarily involves ex-ante consideration of risks and probabilities – moving from the domain of evaluation (“was it achieved”) to the domain of rating (“ what is the likelihood of it being achieved” or “what is the risk of non-delivery / default?”).
- The potential benefits and functions of an International Carbon Asset Reserve (ICAR) were discussed. It was agreed that in a world of heterogeneity in market and carbon assets, an ICAR would need to have a way to establish the relative value of assets bought, sold, banked or borrowed such as the proposed rating concept. In the current concept for Globally-Networked Carbon Markets, the ICAR would take information from the

independent rating approach and then set exchange rates among carbon assets that would transfer from one system into another.

- Continued development and testing of the Globally-Networked Carbon Markets ideas is compatible with the on-going UNFCCC-led negotiations. It provides a forum for developing and testing ideas and approaches which could be valuable inputs to the negotiations process.

### Conclusions

- There is support for continued development of the Globally-networked Carbon Markets concept.
- There is support to move forward with testing the presented rating approach as soon as possible. As a starting point, the rating approach could be tested:
  - At the program level (which is seen as potentially less controversial than the jurisdiction level rating).
  - On a broad range of activities beyond NAMAs, including Program of Activities and City-wide programs.
  - Initially with a strong element of learning and building understanding / comfort with a rating approach.
- Further assessment of the potential benefits and functions of an ICAR would be useful, taking into consideration the need for: flexibility so that fast-mover sub-national jurisdictions would be able to participate / benefit; greater outreach to developing countries to understand and incorporate a range of perspectives in further analysis.
- It is important to maintain communication with the UNFCCC and keep track of the climate change negotiations at the UNFCCC so that progress in the concept and testing of elements of the globally-networked carbon markets idea are available as needed for the UN process.

### Next Steps:

- The timing of the next Working Group meeting will be decided once there has been sufficient progress on the above work streams.
- Support and engagement of the Working Group will be on an on-going basis with respect to broadening stakeholder outreach, input in developing and implementing activities to advance the rating approach and feedback on analytic work.