
GLOBALLY-NETWORKED CARBON MARKETS

1ST WORKING GROUP MEETING
SEPTEMBER 9-10, 2013 -- WORLD BANK OFFICE, PARIS

KEY POINTS AND NEXT STEPS

The first “Working Group Meeting on Globally-networked Carbon Markets” took place in Paris, September 9-10. This 2 day meeting brought together representatives from private sector and industry associations, developed and developing country governments, think-tank and academic analysts and researchers, NGO representatives and multilaterals. The participation list is attached.

Meeting Context

- Tackling climate change will be one of three priorities in the new World Bank Group (WBG) Strategy that aims to end extreme poverty by 2030 and promote shared prosperity around the world. WBG will do more on resilience, adaptation and mitigation with our client countries. WBG has also committed to exploring ways to catalyze key actions that will make a material difference in avoiding a 4 degree world and to this end a Task Force to Catalyze Climate Action was recently set up.
- One of the focus areas of the Task Force is Globally-networked carbon markets. The WBG’s aim is to play a catalytic role in developing the idea of Globally-networked carbon markets and could assist in piloting in the early stages. These efforts will complement on-going work to assist countries in designing and implementing carbon pricing through, for example, the Partnership for Market Readiness.

Meeting Objectives

- The meeting was intended to provide an opportunity for open, active discussion and brainstorming around the initial idea for Globally-networked Carbon Markets, including the elements of rating the carbon integrity and climate change mitigation value of carbon assets, and an International Carbon Reserve. The specific objectives of the meeting were (i) to exchange views in order to develop or revise the overall idea, and to (ii) define next steps both in terms of subsequent engagement through the working group as a whole, and concrete activities and partnerships to investigate or develop specific elements.

Overview of Main Points

- There was overall appreciation for the WBG convening a discussion on the topic of linking / networking carbon markets and most participants indicated that they would be interested to continue to be involved in the Working Group.
- There was general agreement regarding the view that heterogeneity in carbon markets and assets is here to stay, and that finding a way to connect jurisdictions is desirable.
- An overall idea for globally-networked carbon markets was presented. Principles proposed to underpin the idea of globally-networked carbon markets include: “Opt-in” approach (jurisdictions participate if they see value); Respect sovereignty (facilitate the most efficient trading up to the level that each jurisdiction chooses to engage); Compatibility with a top-down global agreement when this is achieved; Encourage participation (learning by doing, and race to the top); Private sector-friendly design; and Carbon integrity. The proposed key elements of the idea are an Independent rating system and independent rating agencies applying a risk-based approach to rate the carbon integrity and climate change mitigation value of carbon assets in the international market; an International Carbon Reserve to help in addressing market risks and failures; and an International Settlement Platform to track cross-border trades.
- The presentation of the idea for globally-networked carbon markets provoked a lot of discussion and remains an open topic for further discussion.
- On the idea of an International Carbon Reserve (ICAR) there was a wide range of views regarding possible options, obstacles and whether an ICAR could provide sufficient benefits to outweigh the costs. There was agreement that more work to understand these questions would be worthwhile.
- There was agreement that rating is an interesting concept worth pursuing further, while recognizing that it will be controversial. In particular the idea of attempting to rate a jurisdiction’s level of ambition was seen as very controversial. There was support for piloting the rating approach as soon as feasible.
- Beyond the discussion of ideas related to globally-networked carbon markets, a broader question was raised as to whether there is something to be done in this area to help increase the level of ambition for climate change mitigation more quickly. This is a question that could be considered for further discussion in the next Working Group meeting.
- Within the Working Group, two task groups will be formed: one on Ratings and one on the International Carbon Reserve. These two groups will provide inputs on the respective topics as the ideas and analysis are developed further.

Summary and Next Steps: Ratings

- In the context of the idea for Globally-Networked Carbon Markets, the rating approach would include all carbon assets to be internationally traded among the “opting-in” jurisdictions. Rating would apply to assets in “buying jurisdictions” as well as to offsets.
- Rating may also facilitate “linking by degrees” and pledge and review approaches.
- As a starting point for developing the rating ideas, a draft NAMA Rating Protocol is under development and was presented to the Working Group. In the context of a globally-networked carbon market, NAMA rating would apply to crediting NAMAs. But even for supported NAMAs, rating may be useful to the host government and to donors and investors. The rationale for starting with NAMA rating is that NAMAs present the challenge of rating not only at the activity/program level, but also the policy environment.
- The proposed Protocol consists of 5 modules, the first 3 of which are linked directly to the Mitigation Program/ Activity and the remaining two to the policy environment and level of ambition of the jurisdiction within which the mitigation program/ activity is embedded:
 - Module (i) Mitigation program/ activity and managing entity,
 - Module (ii) Alignment of program/ activity with sectoral policy environment,
 - Module (iii) Sustainable Development Benefits of the mitigation program/ activity (applicable for NAMAs);
 - Module (iv) Policy and Implementation Measures to Achieve National Level Mitigation Objective;
 - Module (v) Level of Ambition of National Mitigation Objective.

The current schedule for the NAMA rating activity is to complete the stakeholder consultations for the NAMA rating protocol in early October 2013 and the road-testing of the draft Protocol of identified mitigation programs/ activities (modules (i) – (iii)) by December 2013.

- The Working Group recommended that the Rating Protocol be modular and module scores not be aggregated so that different stakeholder groups could utilize the full range of information.
- The Working Group suggested that the piloting of the Rating Protocol begin soon after the conclusion of the stakeholder consultation and road-testing process. The Working Group further suggested that the rating activities should be sequenced to focus on rating of the mitigation program/ activity in the “road-testing” phase (modules (i), (ii), (iii)).
- In addition, two work streams were identified to further develop the modules (iv) and (v).

- The WB will work with members of the Ratings Task Group to develop the two work streams above and to identify countries and programs for piloting.

Summary and Next Steps: International Carbon Reserve (ICAR):

- There were two short presentations intended to set out possible options and potential functions for an ICAR as the starting point for discussion. The Infras presentation aimed to stimulate discussion about possible functions and structures for an ICAR. The Idea Carbon presentation outlined a possible concept for an ICAR that would set and maintain an “international price” for carbon.
- There was a wide range of views regarding possible options, obstacles and whether an International Carbon Reserve could provide sufficient benefits to outweigh the costs. Among the aspects to be explored are what type of benefits could be achieved and which types of benefits would be attractive to various categories of stakeholders. For example, a liquidity and high price buffer function might be important for smaller, emerging carbon markets; a back-up for domestic reserves might be of interest to some of the larger markets; a market maker function might be of interest to jurisdictions intending to focus on offset assets. The idea of a network of reserve “nodes” as opposed to a central reserve was suggested as an option to consider.
- There was support for the suggestion to focus on the role/value of an ICAR in creating opportunities for the future rather than in addressing existing problems and hence to approach the thinking from a strategic rather than an operational point of view.
- A number of initial or intermediate steps could be considered that might provide some of the potential benefits but be more practical to progress initially, for example helping to form coalitions of countries concerned about price volatility and exploring working with existing coalitions or jurisdictions already interacting under existing alliances.
- Beyond the technical considerations, the political economy of developing an international institution / coalition / collaboration would also be an important aspect to understand.
- There was agreement that it would be worthwhile to undertake work to understand the potential strategic purpose, value, and constraints of an ICAR. Suggested focal areas were (a) improving liquidity, which relates closely to the concepts of fungibility and market making. A pilot of a market-making function could be linked to piloting the rating system; (b) helping to address concerns about extreme volatility; and (c) political economy. The WB will work with members of the ICAR Task Group to define and develop the work streams.

Process

- Two task groups will be formed: one on Ratings and one on the International Carbon Reserve. WB will take on the role of convenor / secretariat of the task groups. Ideally one of the task group members will be identified to chair / lead each task group. The two task groups will form the Working Group.
- The next working group meeting is tentatively scheduled for late January, 2013 in Paris (to be confirmed). In the meantime, members of each task groups will interact (probably virtually) among themselves to move forward on the next steps defined below and will report on progress at the next Working Group meeting.