

Markets Matter: *Policy Architecture for Paris*

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IETA

Climate Challenges, Market Solutions



We need a price on carbon . . .

. . .

. . .

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Only the clarity of a carbon price will change the long term energy investment outlook



Remember this?

Article 12 (*of the Kyoto Protocol*)

1. A clean development mechanism is hereby defined.
2. The purpose of the clean development mechanism shall be to assist Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments under Article 3.



What has the CDM delivered?

Infrastructure and Governance

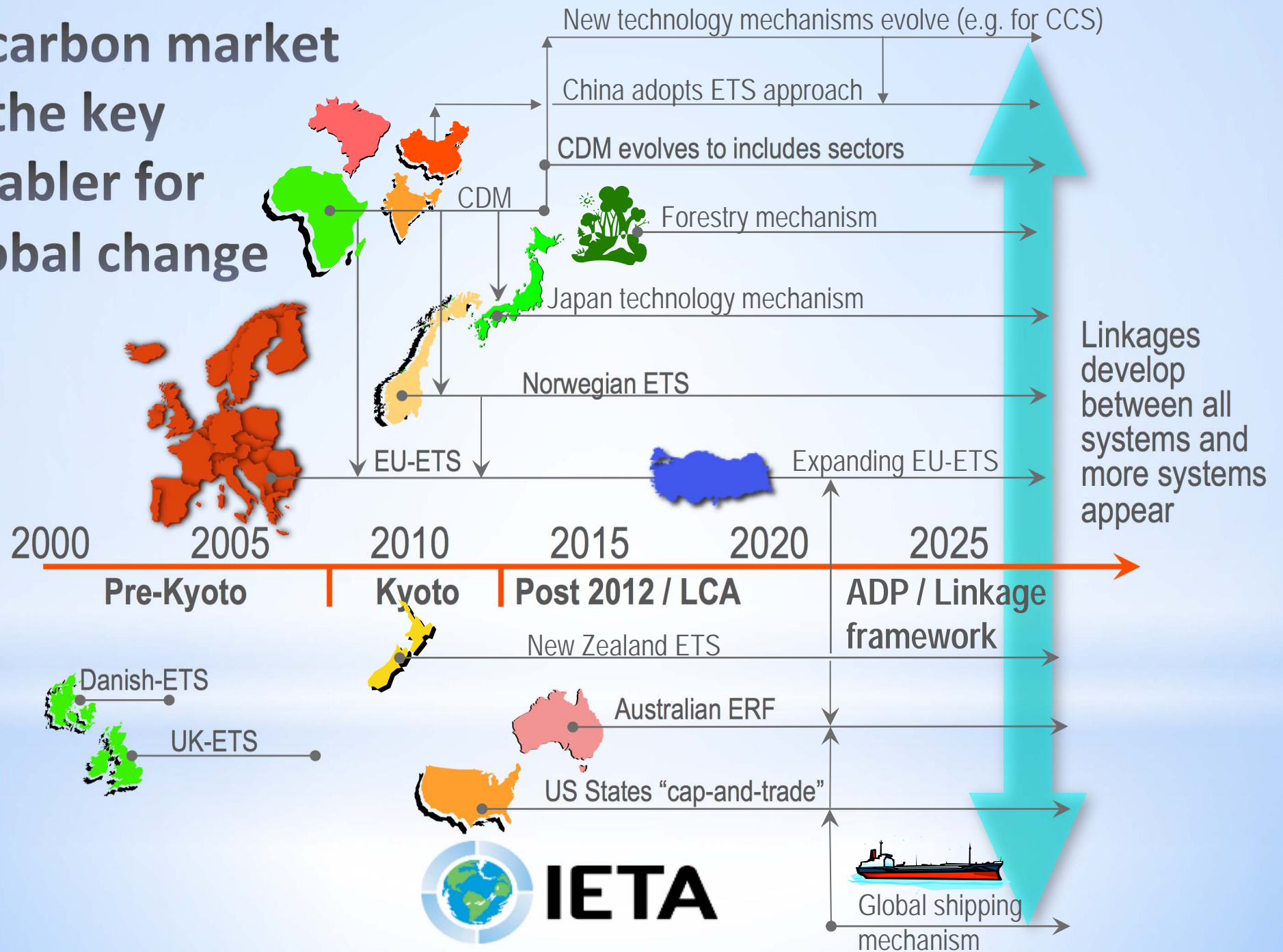
- A functional, self-financed, multi-billion euro market
- 200 active methodologies
- Internationally accepted standard for measuring, reporting and verifying (MRV) emission reductions

Mobilization and Funding

- \$315 billion of new funding for low---carbon activities (UNFCCC 2014)
- Even relatively small amounts of CER revenue can mobilize large amounts of further private finance for mitigation



A carbon market is the key enabler for global change



Towards large operational, global markets...

1. **Infrastructure** for Parties to form unified compliance pools.
2. **Transfer function** enabling trade of units between countries in the pool.
3. **Integrates best elements** of CDM/JI programmes into a unified international crediting mechanism.



The Paris Agreement

- May well be quite short;
- Probably more outline than substance;
- Big picture items only;
(but what could be bigger than a global carbon market)
- Plenty of COP decisions later;
- Each idea or concept gets just a few lines.
- Markets and carbon pricing are still struggling to gain global acceptance

So how do we create the essence of a global market?



Just a few lines to create a global carbon market

Cooperation between Parties in realizing their Contributions

1. Parties may voluntarily cooperate in achieving their mitigation contributions, [which may improve cost effectiveness and bolster ambition].
2. A unified international transfer system is hereby established.
 - a. A Party, though private and/or public entities may transfer portions of its nationally defined contribution to one or more other Parties through carbon units of its choice.
 - b. Transfers and receipts of units shall be recorded in equivalent carbon reduction terms [in the international transaction log and be included in national reports as contributions delivered by the receiving Party and as transfers from the transferring Party].



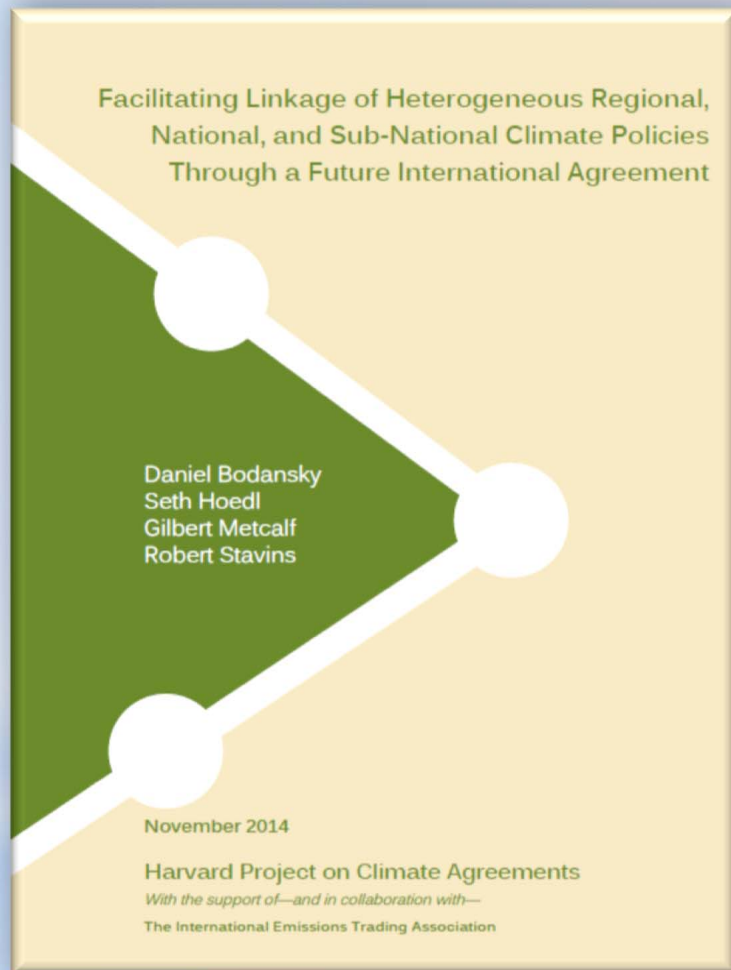
The “bare bones” version – 5 lines

Cooperation between Parties in realizing their Contributions

1. Parties may voluntarily cooperate in achieving their mitigation contributions.
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 - b. Transfers and receipts of units shall be recorded in equivalent carbon reduction terms.



Harvard Kennedy School Input



Explores the role of linkage in the new international climate-change agreement to be completed in Paris in December 2015

“The authors conclude that the most valuable outcome of the Paris Agreement regarding linkage may simply be including an explicit statement that parties may transfer portions of their emissions-reduction contributions to other parties—and that these transferred units may be used by the transferees to implement their own commitments.”



Thank you

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