



United Nations Climate Change Regional Collaboration Centres

Regional Dialogues on Carbon Pricing REPORT



2023

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EXECUTIVE SUMMARY

This report synthesizes the views and comments received by participants on the Regional Dialogues on Carbon Pricing (REDiCAP) organized back-to-back with the four Regional Climate Weeks for 2023 between September and November. In total, 96 country participants from 71 countries and 56 observers participated in the four REDiCAP training workshops.

The REDiCAP was conducted with the purpose of supporting policymakers in price-based instruments and delivered as part of the project Collaborative Instruments for Ambitious Climate Action (hereinafter CiACA).

Participants recognized during the dialogues the potential of carbon pricing instruments to reduce the cost of National Determined Contributions (NDC) implementation and emphasized the need for a comprehensive strategy. Equity in regional markets, particularly in smaller economies, was highlighted to avoid unfair competition.

Sector selection and gradual implementation were identified as crucial, with a focus on aligning instruments with sector structures. The pilot phase, starting with low carbon prices, was deemed essential to prevent overwhelming targeted entities. Equitable revenue sharing and recycling for mitigation activities were emphasized to address distributional impacts.

The importance of complementing policies with co-benefits, such as incentives for renewable energy adoption, was stressed. Country participants suggested specific research to maximize sustainable development co-benefits and minimize the impact of taxes on citizens and the economy.

In considering Emission Trading Systems (ETS) and Carbon Tax policies, participants expressed concerns about small economies and highlighted the need for offset limits to ensure emission reductions at the lowest cost. For Carbon Tax policies, a bottom-up approach focusing on specific sectors, progressive taxation, and standardized methodologies were recommended.

Regarding other compliance instruments like Carbon Border Adjustment Mechanism (CBAM) and Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), concerns were raised about potential protectionism with CBAM. Questions were posed about the application of CBAM and the readiness of countries and companies to comply. Observers

questioned whether credit issuance during CORSIA's pilot phase needed adjustment.

Cross-cutting issues include the enhancement of Monitoring, Reporting, and Verification (MRV) capacity, stakeholder involvement, and awareness raising. A robust MRV system was deemed crucial, and effective stakeholder engagement, particularly with vulnerable communities and indigenous people, was emphasized. Knowledge sharing, including experiences from different jurisdictions, was recognized as valuable.

Survey findings indicated a positive response from participants, with nearly 98% finding the dialogue informative. The summary underscores the importance of a comprehensive and inclusive approach to designing carbon pricing policies, considering economic, social, and environmental aspects.



“Country participants shared experiences on carbon pricing implementation at domestic level and reiterated the importance of experience sharing.”

REDiCAP for Latin American and the Caribbean Region, October, 2023

Abbreviations and Acronyms

ACW	Africa Climate Week
APCW	Asia-Pacific Climate Week
CiACA	Collaborative Instruments for Ambitious Climate Action
CBAM	Carbon Border Adjustment Mechanism
CORSIA	Carbon Offsetting and Reduction Scheme for International Aviation
ETS	Emissions Trading System
LACCW	Latin America and the Caribbean Climate Week
LT-LEDs	Long-term Low Greenhouse Gas Emission Development Strategies
MENACW	Middle East and North Africa Climate Week
MRV	Monitoring, Reporting and Verification
NDC	Nationally Determined Contribution
REDiCAP	Regional Dialogues on Carbon Pricing

A. Introduction

This report highlights the views expressed by participants on the Regional Dialogues on Carbon Pricing (REDiCAP) organized back-to-back with the Article 6 trainings during the four Regional Climate Weeks for 2023 between September and November. The workshop was conducted with the purpose of supporting policymakers in price-based instruments and delivered as part of the Collaborative Instruments for Ambitious Climate Action (hereinafter CiACA).

This activity stems from the following mandates:

- Decision 1/CP.21 Paragraph 136: “Also recognizes the important role of providing incentives for emission reduction activities, including tools such as domestic policies and carbon pricing”.
- Paris Agreement Article 6, paragraph 1: Parties recognize that some Parties choose to pursue voluntary cooperation in the implementation of their nationally determined contributions to allow for higher ambition in their mitigation and adaptation actions and to promote sustainable development and environmental integrity.
- Paris Agreement Article 11, paragraph 3: All Parties should cooperate to enhance the capacity of developing country Parties to implement this Agreement. Developed country Parties should enhance support for capacity-building actions in developing country Parties.
- Decision 1/CP.21 Paragraph 52: Decides that, in the implementation of the Agreement, financial resources provided to developing country Parties should enhance the implementation of their policies, strategies, regulations and action plans and their climate change actions with respect to both mitigation and adaptation to contribute to the achievement of the purpose of the Agreement as defined in its Article 2.

The project objectives are achieved through engagement, awareness raising, capacity building, funded studies as well as funded experts made available to the countries. Specifically, the workshop falls under the capacity-building objectives of this project.

Supported developing countries are the main beneficiary of the project by enabling them to put in place more effective and efficient policies (which also deliver co-benefits).



“The call for equity for regional markets, particularly for smaller economies, resonates as a crucial measure to prevent unfair competition.”

REDiCAP for Asia-Pacific Region, November 2023

B. Scope of the report

This report synthesizes the views and comments received by participants on the REDiCAP organized back-to-back with the four Regional Climate Weeks for 2023 between September and November.

The following are the details for each REDiCAP at the four Regional Climate Weeks for 2023.

- Africa Climate Week (ACW 2023) was held in Nairobi, Kenya, on 4-8 September. 36 country participants from 30 countries and 5 observers participated in the REDiCAP training workshop at ACW 2023.
- Middle East and North Africa Climate Week (MENACW 2023) was held in Riyadh, Saudi Arabia on 8-12 October. 20 country participants from 13 countries and 15 observers participated in the REDiCAP training workshop at MENACW 2023.
- Latin America and the Caribbean Climate Week (LACCW 2023) was held in Panama City, Panama on 23-27 October. 22 country participants from 17 countries and 12 observers participated in the REDiCAP training workshop at LACCW 2023.
- Asia-Pacific Climate Week (APCW 2023) was held in Johor Bahru, Malaysia on 13-17 November 2023. 18 country participants from 13 countries and 24 observers participated in the REDiCAP training workshop at APCW 2023.

In total, 96 country participants from 71 countries and 56 observers participated in the four REDiCAP training workshops above.

C. Approach and structure

Section D provides the synthesis of submitted views, categorized into common topics and sub-topics raised throughout the training. Session E includes findings from an online survey conducted after the training to collect feedback and inputs from training participants.

D. Synthesis of submitted views

1. General considerations for designing carbon pricing policies

(a) Development of carbon pricing strategy/framework

- (i). Country participants recognized that carbon pricing instruments have the potential to reduce the cost of NDC implementation while enabling more ambition. Participants emphasized the importance of gaining a deeper understanding of the nexus between carbon pricing instruments and NDC and LT-LEDS. Discussions took place on the need for clarification between conditional and unconditional NDCs and determining priorities in this regard.
- (ii). When considering carbon pricing, country participants were urged to undertake a comprehensive assessment of domestic carbon pricing policies' distributional and economic impacts to inform policymakers of the potential adverse effects of carbon pricing on low-income households and businesses.
- (iii). The aspect of equity in regional markets is key to avoiding unfair competition between companies burdened by carbon pricing instruments and others who are not, and this might help to identify the potential for developing a regional market for ETS.
- (iv). Some participants raised concerns regarding the introduction of carbon pricing instruments in smaller economies with a limited tax base and fiscal space.

(b) Sector selection and gradual implementation

- (i). Selection of pertinent sectors and aligning the instrument to the sector structure was pointed out as a favourable approach to avoid final consumers from rejecting the tax. It was emphasised that priority should be given to the key sectors/actors initially while other stakeholders can be brought on board along the way.
- (ii). Country participants discussed the impact of the choice of sectors to be covered by domestic carbon pricing instruments by the complexity of MRV in some sectors, e.g., in motorized vehicles, agriculture and forestry. Country participants also highlighted the importance of including a limited range of sectors, such as power, cement, and steel, and progressively expanding the policy to other sectors.

- (iii). Discussion emphasized that the pilot phase of a carbon pricing policy is a crucial step in its implementation and development. The need to start with low levels of carbon price with the progressive increase was mentioned as a favorable strategy that may guard against overwhelming the targeted entities.

(c) Revenue recycling and mitigation of cost increase by carbon pricing

- (i). The importance of equitable revenue sharing/recycling was emphasized. Suggestions were made to ensure that carbon tax revenues are allocated towards mitigation activities or towards supporting vulnerable communities.
- (ii). Participants raised concerns about how the impact of the introduction of a carbon tax would impact industries and how the higher cost can be compensated. In response, the representative explained the country's approach to mitigate the impact in energy and industry sectors using vouchers. The lower a factory's income, the freer vouchers it receives. The revenue received through the carbon tax is being returned and/or re-invested.

(d) Complement policy and co-benefits

- (i). Country participants raised important points regarding the challenges faced by certain countries in transitioning from fossil fuel-dependent economic models. They have proposed that rather than implementing carbon pricing, it would be more beneficial to introduce incentives that promote the adoption of renewable energy technologies, thereby ensuring a fair and equitable transition.
- (ii). Country participants argued that specific research needs to be done on how a country can maximize sustainable development co-benefits and minimize the impact of tax on citizens and the economy. This may take forms such as direct compensation, rebates on energy bills, and the allocation of funds to assist the most economically vulnerable citizens of the country.

2. Specific considerations for ETS and Carbon Tax

(a) Design of ETS policy

- (i). Some participants raised concern regarding small economies scared of taxes and acknowledged that in this context, ETS could be a better option. Participants raised questions about the use for carbon credits under ETS, specific to the rationale behind setting limits of using offsets under an ETS.
- (ii). It was mentioned that limiting the usage of offset allows the ETS to achieve its core function, reducing emissions from participating entities, at the lowest

cost. If offset limits are not imposed, participating entities may be incentivized to use offsets rather than reducing their own emissions.

(b) Design of Carbon Tax policy

- (i). Country participants acknowledged that to ensure the successful implementation of carbon taxation, it is crucial to establish a bottom-up carbon price mechanism that focuses on specific sectors. This approach will provide clear guidance to the country and can eventually be expanded to a regional level.
- (ii). Country participants highlighted the importance of prioritizing the implementation of a progressive tax that has a neutral impact and imposes a low burden on the economy, while also recognizing the potential for synergy and the comprehensive future price as they update their NDCs.
- (iii). Country participants have informed that some countries have introduced a tax on fossil fuels and fertilizers to encourage companies to transition towards renewable energy sources and reduce reliance on fossil fuels. Some other country participants have emphasized that the energy sector in their countries contributes only a small fraction of greenhouse gas emissions. Considering this, they have posed a question to other Country participants, seeking their perspective on the impact of such taxation on the industry.
- (iv). Country participants expressed the need for technical support towards having common carbon tax instruments and called for the adoption of standardised methodologies to streamline this process.

3. Other compliance instruments

(a) CBAM

- (i). The CBAM was recognized as an effective instrument to address the issue of carbon leakage. Nevertheless, country participants raised concerns about the impact of CBAM on emission-intensive and trade-exposed sectors, with the risk of CBAM being used as a protectionist measure. Nevertheless, the participants argued that CBAM should encourage countries to decarbonize their industrial production and remain competitive.
- (ii). Participants sought clarification on whether CBAM is applied at the emission on the product or facility itself. Country participants also raised questions about whether a country manufacturer may be allowed to use offsets to lower embedded emissions in their products.

- (iii). Participants raised concerns about the short timeframe for countries to comply with CBAM, and the preparedness of countries and companies, particularly in addressing embedded carbon emissions and the associated costs. The responsibility is perceived as potentially shifting to governments, requiring them to establish domestic carbon pricing instruments. There is uncertainty about whether governments are ready for such measures and how they will impact products entering jurisdictions with CBAM. The concern also extends to non-CBAM countries importing carbon-intensive products from jurisdictions implementing CBAM.

(b) CORSIA

- (i). An observer raised the question about whether credit issuance during 2021 – 2023 (pilot phase of CORSIA) needs to be correspondingly adjusted.

4. Cross-cutting issues

(a) Enhancement of the capacity, particularly in MRV

- (i). Country participants recognized the significance of addressing barriers such as the lack of transparency, the absence of a centralized registry, inadequate legal infrastructure, and limited internal capacities. They also emphasized the importance of capacity-building efforts for local experts, as well as ministries and other government agencies, to strengthen their climate action.
- (ii). Participants highlighted that a robust MRV system is crucial for accurately measuring the impact of climate actions.

(b) Stakeholder involvement and awareness raising

- (i). Country participants reiterated that the success of carbon pricing policy hinges on effective stakeholder engagement. Stakeholder input can refine the design of the carbon pricing mechanisms by ensuring that such instruments are tailored to specific contexts. It is imperative to ensure that the voices and concerns of all affected country participants are heard and addressed, with special consideration to vulnerable communities and indigenous people.
- (ii). Public acceptability of policy instruments is vital to the effectiveness of carbon pricing. Country participants recommended exploring options to raise awareness among non-state actors and avoid public pushback, such as the use of private sector and civil society champions for the purpose of carbon pricing communication.
- (iii). Country participants recognized that carbon pricing policies may create a variety of opportunities for businesses, such as innovation and access to new

markets. It was emphasized that effectively conveying the benefits and opportunities to all relevant country participants is crucial to ensure a more inclusive and comprehensive approach to carbon pricing communication.

(c) Knowledge sharing

- (i). Country participants shared experiences on carbon pricing implementation at the domestic level. While most jurisdictions are at an early stage of considering carbon pricing instruments, other jurisdictions are at the piloting or full implementation phases. Country participants reiterated the importance of experience sharing.

E. Survey findings

- (i). To collect feedback and input from training participants, an online survey was conducted after the REDiCAP training sessions. Out of the total 187 participants across the four regional trainings, 48 (nearly 26%) respondents participated in the survey.
- (ii). Out of the 48 survey respondents, in response to the survey question “How would you rate this dialogue?”, 47 (about 98%) respondents found the workshop 'Strongly Agree' or 'Agree'.

“Country participants recognized that carbon pricing instruments have the potential to reduce the cost of NDC implementation while enabling more ambition.”

REDiCAP for Asia-Pacific Region, November 2023



“In total, 96 country participants from 71 countries and 56 observers participated in the four REDiCAP.”



Africa, Nairobi, Kenya, September 2023.



Middle East and North Africa, Riyadh, Saudi Arabia, October 2023.



Latin American and the Caribbean, Panama City, Panama, October 2023.



Asia-Pacific, Johor Bahru, Malaysia, November 2023.