Environment and Climate Change Canada / Environnement et Changement climatique Canada

Federal Ministry for the Environment, Nature Conservation and Nuclear Safety

3rd Strategic Dialogue of the Carbon Market Platform
21-22 September 2018

Table of Contents

1. Co-Chair Summary

In September of 2018, Canada hosted the Third Strategic Dialogue of the Carbon Market Platform in Halifax, Nova Scotia. The meeting was co-chaired by Catherine Stewart, Chief Negotiator for Climate Change at Environment and Climate Change Canada and Karsten Sach, Director General of Climate Policy at Germany's Federal Ministry for Environment. The Carbon Market Platform brings together a diverse group of countries and non-state actors each year to discuss how to develop and implement market-based approaches to reduce GHG emissions, including carbon pollution pricing. There were 15 jurisdictions, including two subnational jurisdictions, and nine international organizations that attended this year's Dialogue, as well as private sector representatives.

During the meeting, participants were encouraged to share knowledge and best practices on carbon pricing implementation, and to explore solutions to common political, technical and institutional challenges. The Dialogue sought to discuss potential synergies between domestic and international market mechanisms, without prejudice to ongoing negotiations under the Paris Work Programme.

Reviewing recent international developments in carbon pricing

Participants reviewed recent developments of carbon pricing instruments and discussed the advantages of carbon pricing clubs as well as the challenges they face when deepening cooperation. Carbon pricing was initially framed in the context of Article 6 of the Paris Agreement and as a cooperative tool that can enhance and connect individual parties' mitigation efforts. Participants widely agreed that Parties to the Agreement cannot step back from their Nationally Determined Contributions (NDCs). Many participants viewed Article 6 as a tool that can directly engage the private sector and assist Parties in closing the "emissions gap" between their NDCs and the collective temperature goal of the Agreement. However, participants also acknowledged that while Article 6 provides a framework for the implementation of market-based approaches, the real work will take place at the domestic level, and it is up to Parties to coordinate amongst themselves.

As a result, there is an emergence of various regional initiatives that are exploring cooperative approaches to climate action and carbon pricing. Participants discussed examples such as the West African Alliance on Carbon Markets and Climate Finance and the Declaration on Carbon Pricing in the Americas. The discussion addressed some of the advantages and challenges faced by members of regional initiatives when working together on carbon pricing policies. Participants highlighted many of the benefits received by members to carbon pricing clubs, including better access to low-carbon investment capital, enhanced information sharing, and stronger positioning in multilateral climate negotiations. Conversely, participants noted that club members must also consider a number of coordination dilemmas in order to maintain a high-functioning carbon pricing club. These dilemmas include decision-making rights, compliance and enforcement mechanisms, and how broadly to expand membership.

Several participants highlighted a need to support capacity building in Least Developed Countries (LDCs) to ensure that they have the opportunity to participate in carbon market mechanisms and to help ensure a consistent supply of emission reductions as countries transition toward low-carbon economies.

Cooperative approaches to international carbon pricing

Participants looked at international coordination on carbon pricing by showcasing real-life experiences. They reviewed several levels of carbon pricing coordination, including offset mechanisms, sector-specific approaches and linked emissions trading systems. Participants noted that, typically, as jurisdictions increase coordination and alignment with each other, they achieve an increasing number of benefits, such as economic efficiency gains, improved safeguards for environmental integrity, and enhanced political commitment to emission reductions. In addition to a wide variety of carbon pricing mechanisms, there is significant variance in the levels of carbon prices across jurisdictions. Participants discussed how jurisdictions should decide what type of carbon pricing is best for them and at what level to set their carbon price.

Given the differences in the types and levels of carbon pricing around the world, some participants noted that governments should maintain a degree of flexibility in the design of their domestic carbon pricing systems to enable international cooperation. In order to help maintain market stability, jurisdictions should achieve alignment on key carbon pricing elements before linking their systems.

Some participants suggested using a step-wise approach to linking, aligning one element at a time, to build political trust and technical capacity prior to a full linkage. Several participants cautioned that remaining flexible to the possibility of linking should not undermine ambition or environmental integrity. Participants who shared their own carbon pricing experiences underscored the importance of using conservative emissions reduction calculations and maintaining a clear set of standards when aligning with another system. Many participants also agreed that the Article 6 guidelines should be designed in a way that creates a high degree of confidence between the buyer and seller of internationally transferred mitigation outcomes.

Addressing concerns surrounding competitiveness and carbon leakage

Participants explored tools and conditions that maximize the competitiveness of jurisdictions with carbon pricing and address concerns related to carbon leakage. Discussions touched on the advantages and challenges of using cooperative versus retaliatory carbon pricing measures to address competitiveness concerns. The general consensus favoured cooperative approaches, although further research on the implications of each approach is required. Some participants noted that competitiveness is generally dealt with at different points of maturity of a carbon pricing system.

For example, free allocation of emission credits or tax exemptions are often introduced during the inception of a carbon pricing system, and taper off as time goes on. Conversely, as the system matures, the carbon price tends to rise. Despite common concerns among the public that a higher carbon price will result in a competitive disadvantage for that jurisdiction, some participants presented findings from a growing body of evidence that disproves these concerns. Participants widely agreed on the need to disseminate this data and improve communication strategies with civil society and the private sector on the benefits of carbon pricing.

Understanding why businesses use a shadow price on carbon pollution

Participants looked at the factors that motivate businesses and investors to set their own internal carbon prices. It was widely recognized that governments can only do so much when it comes to climate action – they can signal the transition toward a low-carbon economy, but ultimately it is the private sector that will deliver the results. Participants noted that when a government puts a carbon price in place, many companies within that jurisdiction respond by implementing their own internal carbon price. This helps companies quantify their exposure to high-emission activities in their supply chain, should public carbon prices increase in the future, and communicate these risks with their shareholders. Several participants noted that governments have the responsibility to act in good faith, without any conflict of interest when they implement a carbon price to assure a certain level of policy stability. The private sector is more likely to respond to a carbon price when they are confident in the longevity of the policy decision. Participants also highlighted the fact that, in addition to a carbon price, re-directing public and private investments to low-carbon technologies is key for achieving the long-term goals of the Paris Agreement.

In the same vein, emerging markets can harness the power of carbon pricing as they continue to develop into advanced economies. Through the implementation of a price on carbon, emerging economies can signal to investors that they are on a long-term path toward low-carbon and sustainable economic development. Many participants suggested that sending a price signal is more important than the price itself, and even starting with a low price can push business decisions in the right direction.

How carbon pricing can enhance climate action ambition

Participants discussed how carbon pricing can raise ambition. Some shared specific case studies regarding the implementation and outcomes of their own carbon pricing systems and discussed how to build good-will among civil society and businesses. Early engagement with the private sector and the public was identified as a primary factor that contributes to the acceptance and longevity of a carbon pricing system. Well in advance of implementing a price on carbon, governments can demystify the relatively abstract concept of carbon pricing by using concrete language to address the common questions and concerns of individuals and firms around how they would be impacted both by climate change and by mitigation measures like carbon pricing. Participants highlighted that civil society and the private sector are concerned with how the revenue generated from carbon pricing is used. Some participants suggested that governments should use the revenue to help improve their industries' energy efficiency, or provide tax rebates for their citizens. Revenue recycling demonstrates that carbon pricing is an incentive for energy-efficient entities, rather than a penalty for high-emitters. Furthermore, designing flexibility into a carbon pricing system allows businesses the freedom to find their own lowest- cost emission reductions. If jurisdictions are inclined to take it one step further, linking their system with another can expand their businesses' low-cost emission reduction opportunities. Creating a clear set of rules for Article 6 will help governments design carbon pricing systems that can take their climate change ambition to the next level.

Looking ahead

Participants widely agreed that the Platform could be an avenue to build a stronger narrative surrounding the advantages of carbon pricing, which could in turn inform the communication strategies for national governments who are interested in applying a price to carbon. Participants also highlighted the need to expand economic modelling and research on carbon pricing to support this narrative and empower the technical experts to inform their political leaders of the benefits of applying a price to carbon pollution. Many participants underscored the role for regional institutions in advancing carbon pricing, and consideration was given to including them in future Dialogues. Additionally, participants widely supported the need to better engage civil society and the private sector in the carbon pricing conversation to build good will and mobilize the highest level of climate action ambition. The Carbon Market Platform was broadly recognized as a space to enhance inter-governmental communication and coordination on carbon pricing.

Participants raised interest in the creation of a work plan to continue exploring one or more of the key themes raised during the meeting, as highlighted above. The co-chairs agreed to present a proposal on how a **working group of interested countries** could best provide input on these matters for next year's Dialogue. The proposal would be for the consideration of the upcoming co-chairs. The **Government of France** kindly offered to **host the Fourth Strategic Dialogue of the Carbon Market Platform** in 2019, and co-host the meeting alongside Canada. Participants concurred that the Carbon Market Platform should continue to promote international collaboration on carbon pricing and support countries' work to implement our respective carbon pricing policies.

2. Presentations from each of the sessions (hyperlinked)

Session 1:

- Article 6 of the Paris Agreement Status update, Conor Barry – UNFCCC
- West African Alliance on Carbon Markets and Climate Finance, El Hadji Mbaye DIAGNE – Africa
- Advancing Linked Carbon Pricing Instruments, Frédéric Gagnon-Lebrun - IISD

Session 2:

- International Coordination on Carbon Pricing, Daniel Nachtigall – OECD
- Experience of implementing the Joint Crediting Mechanism (JCM) and lessons learned, Hiroshi Ono - Japan

Session 3:

- Carbon Pricing and Competitiveness, Angela Churie Kallhauge - Carbon Pricing Leadership Coalition
- Addressing competitiveness concerns in ETS design an intertemporal perspective, Constanze Haug - ICAP
- Canada intergovernmental working group on carbon pricing and competitiveness, Éric Théroux – Québec and Tim Lesiuk - British Columbia

Session 5:

- Singapore's carbon tax, Joseph Teo - Singapore
- Enhancing ambition through carbon pricing, Hugh Salway - UK Department for Business, Energy and Industrial Strategy

3. Meeting Agenda

Carbon Market Platform Strategic Dialogue 2018
21-22 September 2018
Agenda

<table>
<tr><th colspan="2">September 21</th></tr>
<tr><td>Time</td><td>Agenda Item and Description</td></tr>
<tr><td>9:00 – 9:30</td><td>Registration and Coffee</td></tr>
<tr><td>9:30 – 9:45</td><td>Welcome Remarks and Introduction by Co-Chairs
Co-Chairs:
Catherine Stewart, Director General and Chief Negotiator for Climate Change, Canada
Karsten Sach, Director General of Climate Policy, Germany</td></tr>
<tr><td>9:45 – 11:00</td><td>Session 1: Setting the Scene
Recent developments and linking of carbon pricing instruments.
Icebreakers:
1. Conor Barry, Team Lead, Strategy Development, United Nations Framework Convention on Climate Change
– Update on Article 6 negotiations
2. Mbaye Diagne, Director General, Afrique-Energie-Environnement; and
Martin Lajoie, Senior Advisor, Environment and Climate Change Canada
– West African Alliance on Carbon Markets and the Declaration on Carbon Pricing in the Americas
3. Frédéric Gagnon-Lebrun, Senior Associate for Climate Change Mitigation, International Institute for Sustainable Development
– Advancing linked carbon pricing instruments
Open discussion</td></tr>
<tr><td>11:00 – 11:15</td><td>Coffee Break</td></tr>
<tr><td>11:15 – 12:30</td><td>Session 2: Cooperation between carbon pricing jurisdictions
Improving international coordination on carbon pricing, including through real life experiences.
Icebreakers:
1. Daniel Nachtigall, Policy Analyst, Organization for Economic Co-operation and Development
– Improving economic efficiency and climate mitigation outcomes through international co-ordination on carbon pricing
2. Yvon Slingenberg, Director of International, Mainstreaming and Policy Coordination, European Commission
– EU experience in cooperation/coordination between carbon pricing jurisdictions
3. Hiroshi Ono, Deputy Director General, Global Environment, Japan
– Experience of implementing the Joint Crediting Mechanism and lessons learned
Open discussion:
• Where do participants see the greatest opportunity for coordinating on carbon pricing in the near term?
• Which practical steps need to be taken to make progress on coordination?
• Which barriers and caveats to co-ordination on each of the steps do participants anticipate and how could these barriers be overcome?</td></tr>
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12:30 – 14:00	**Lunch Break**
14:00 – 15:15	**Session 3: Enhancing competitiveness to reduce carbon leakage** Exploring the tools and conditions that maximize the competitiveness of jurisdictions with carbon pricing, including reducing carbon leakage. **Icebreakers:** 1. **Angela Churie Kallhauge,** Head, Carbon Pricing Leadership Coalition Secretariat and Senior Climate Change Specialist, The World Bank Group *– Carbon pricing effects on competitiveness* 2. **Constanze Haug**, Head of Secretariat, International Carbon Action Partnership **–** *Addressing competitiveness concerns through carbon pricing design – from system inception to a longer-term perspective* 3. **Éric Théroux**, Assistant Deputy Minister, Climate Change Action, Québec; and **Tim Lesiuk**, Executive Director, Clean Growth Strategy, British Columbia *– Canada's intergovernmental working group on carbon pricing and competitiveness* **Open discussion:** • How to build stakeholder support for carbon pricing in high-emitting sectors? • What is needed to ensure that carbon pricing is consistent with a just transition? • How to ensure coherence between international trade policy and climate action?
15:15 – 15:45	**Coffee Break**
15:45 – 17:00	**Session 4: The internal business pricing of carbon** Determining what motivates businesses and investors to set their own internal carbon prices, and discussing complementarity between public and private carbon pricing mechanisms **Icebreakers:** 1. **Alzbeta Klein,** Director and Global Head, Climate Business, International Finance Corporation *– Shadow price on carbon in analysis of investment project financing* 2. **Lisa DeMarco**, Senior Partner, DeMarco Allan LLP *– Corporate strategy, long term investments, acquisitions, divestitures, and the necessity of internal carbon pricing, preferably supported by stable climate policy* **Open discussion**: • What are the steps to developing and implementing an internal carbon price? • What is the business case for "shadow" carbon pricing? What are the risks/costs?
18:30	**Reception and Dinner** ***Murphy's Restaurant- 1751 Lower Water Street, Halifax*** ***(Dress Code: Casual, 15-20 minute walk from the Lord Nelson Hotel)***

September 22	
Time	Agenda Item and Description
8:00 – 8:30	**Coffee**
8:30 – 9:00	**Recap from Day 1 and Introduction to Day 2** **Co-chairs:** **Catherine Stewart** and **Karsten Sach**
9:00 – 10:45	**Session 5: Enhancing ambition through carbon pricing** Discuss how carbon pricing can help enhance ambition, both nationally and collectively, including in the context of the Talanoa Dialogue, and identifying opportunities for scaling-up

	Icebreakers: 1. **Joseph Teo,** Chief Negotiator for Climate Change, Singapore – Singapore's domestic approach to enhancing ambition through carbon pricing 2. **Hugh Salway**, Head of Global Carbon Markets, United Kingdom (UK) – *Enhancing ambition through carbon pricing- UK perspective* 3. **Dirk Forrister**, President and Chief Executive Officer, International Emissions Trading Association – *Carbon Pricing and Talanoa* **Open discussion:** • How can carbon pricing be used as a tool to enhance collective ambition? • Should the international community move toward a global carbon price? • What are the co-benefits to putting a price on carbon pollution (e.g. health, economic)?
10:45 – 11:00	**Coffee Break**
11:00 – 12:15	**Closing Session: Next steps for the Carbon Market Platform** Discussion on takeaways from this year's Dialogue, options for capturing/summarizing key points, outstanding questions for further research. **Recap by Co-Chairs**: **Catherine Stewart** and **Karsten Sach** **Open discussion:** • What are your main takeaways from this year's Strategic Dialogue? • What concepts/findings will be useful to remember during COP24? • What outstanding questions should be investigated in the next Dialogue?
12:15 – 13:00	**Departure lunch**