

LESSONS FOR THE NEXT WAVE

MEMO TO POLICY-MAKERS

Even without an international climate change framework, more and more emissions trading systems are emerging. From national plans – such as in China, and other countries participating in the World Bank’s Partnership for Market Readiness (PMR) – to sectoral plans (aviation), decision-makers realise that market-based approaches are the ideal solution for the environmental goals they are trying to achieve.

These efforts will take shape in the months and years after Paris, but make no mistake: this next wave is going to be even more disruptive to the atmosphere than what’s come before. The Paris agreement is a chance to leverage these initiatives – and spur others to action.

A GLOBAL FRAMEWORK THAT ENCOURAGES MARKETS AND FACILITATES LINKAGE IS KEY FOR CONFIDENCE

Ultimately, the response to the climate challenge is a revolution in energy, industry and transport. The best way to drive this change is by putting a price on carbon. The Paris agreement is a chance to encourage this at a global level – and establishing a framework to enable linkage will boost confidence, argue David Hone and Jonathan Grant. Linkage can bring a myriad of benefits – as shown by Steven Rose and Richard Richells’ modelling of a handful of proposed emission reduction plans for Paris.

REGULAR REVIEWS COULD LEAD TO INCREASED AMBITION

Be wary of allowance surpluses: these may bring a false sense of reassurance that leaves companies unprepared to respond to any strengthening of climate policy, warn Marcus Ferdinand and Emil Dimantchev. If periodic reviews of contributions are part of the Paris agreement, this could strengthen the role of carbon markets, which in turn means reducing emissions further and faster.

PUBLIC AND PRIVATE COOPERATION IS IMPORTANT IF EMERGING CARBON MARKETS ARE TO BE POLITICALLY AND OPERATIONALLY VIABLE

When designing new markets, governments should consult with business on plans – this can help build support for the system and also to aid companies in preparing for future regulations. Good examples are the PMR and IETA’s Business Partnership for Market Readiness, which are working together to build the next generation of carbon markets, as outlined by Pierre Guignon and Dan Barry, while Tom Kerr writes about how public and private organisations are uniting under the Carbon Pricing Leadership Coalition. Meanwhile, Richard Chatterton notes that investors would be wise to pay attention to the proposals for Paris as a hint of the direction for future policies.

MARKETS CAN PROVIDE INCENTIVES FOR FINANCE FLOWS

When faced with a price on carbon, emissions go down, and investments change course. As demonstrated by the Clean Development Mechanism (CDM), incentives can help channel investment flows to projects which aid sustainable development, says Gernot Wagner. Individual investments, if organised at a large enough scale, make the difference – like in the CDM.

PROJECT-BASED MECHANISMS CAN LEAD TO FURTHER ACTION

As well as providing emission reduction units, project-based approaches can yield benefits for years to come. As host to the largest share of projects under the CDM, China’s renewable energy sector and a low-carbon workforce has been built up. The country has taken that experience and knowledge transfer and developed its seven pilot trading systems – which will transition to a national ETS from 2017, writes Jeff Swartz. However, initiatives should also be able to adapt to local circumstances if they are to work, warns Geoff Sinclair, highlighting how the CDM has largely bypassed Africa.

LAY SOLID FOUNDATIONS FOR MARKET MECHANISMS

This includes legal foundations to underpin the programme, as well as gather reliable emissions data using robust emissions measuring, reporting and verifying standards. This can be done through voluntary programmes that later transition to a compliance market – as is happening in Taiwan, as explained by Hui-Chen Chien, Robert Shih and Wen-Cheng Hu.

SECTOR SPECIFIC EFFORTS CAN LEAD TO TECHNOLOGICAL ADVANCEMENTS

Climate negotiations specific to aviation have resulted in advancements in aircraft efficiency and biofuels, and fostered discussions on emissions reduction solutions focused on technology. This sets a good example for other industry-specific action either within or parallel to the UNFCCC process, say Megan Flynn and Alec Kibblewhite.