LESSONS FROM THE FIRST WAVE
MEMO TO POLICY-MAKERS

The first wave of carbon markets provided several lessons that programmes have since taken – and the early pioneers continue to learn from their experiences as time goes by. With a fresh wave of carbon markets under development, and the potential for the Paris agreement to inspire more, these early lessons are increasingly important.

The important thing is that all of these developments came from a tiny ripple of climate policy, and built up into the first wave of climate action. The greatest lesson? It doesn't take much to get innovators innovating, and to start making permanent disruptions to the world's emissions levels.

IT MAKES SENSE FOR CLIMATE POLICIES TO BE BUSINESS-FRIENDLY
The first kid on the block was the EU, with its emissions trading system (ETS). After much debate and in face of business opposition to a carbon tax, the EU embraced emissions trading as its leaders realised that it was the lowest-cost way to meet its Kyoto Protocol targets – as explained by Peter Vis, who was instrumental in its development.

REFORMS TO MARKET SYSTEMS SHOULD FOCUS ON IMPROVING THE OVERALL FUNCTIONING
Although not without its faults, the EU ETS has continually been improved since it began in 2005 as lessons have been learned, with the more substantial changes coming in recent years. With the final piece of structural reform in place, the Market Stability Reserve, the EU is now looking at its 2030 target and how the ETS will help get the region there. But throughout it all, it is important to bear in mind that reforms should be made because they make sense and improve the functioning of the system – and not because of the mistaken impression that a low price means the system has failed, as Ingo Ramming explains.

ENSURE THERE IS RELIABLE EMISSIONS DATA BEFORE STARTING ANY MARKET MECHANISM, AND THAT THE SYSTEM USES ROBUST ACCOUNTING STANDARDS – WHICH ALREADY EXIST
One of the most valuable lessons from the EU ETS is that there must be reliable emissions data to ensure environmental integrity of any market mechanism. Standards to measure, report and verify (MRV) emissions are key to giving confidence in the mechanism, and can help track progress. Madlen King looks at lessons from around the world when developing MRV approaches – and finds that there is no need to start from scratch with the Paris agreement.

THE CLEAN DEVELOPMENT MECHANISM (CDM) HAS MUCH TO OFFER A FUTURE AGREEMENT AND MARKET MECHANISM – BUT THERE MUST BE DEMAND TO SUSTAIN IT
Much of the institutional principles of the CDM will remain relevant beyond Paris: MRV, governance, transparency, price discovery, and so on. This holds true even if the CDM itself is dropped in favour of something new or is retooled. But none of this will matter if there is no demand, which is one of the greatest challenges it is currently facing, as Karl Upston-Hooper reports.

INTENSITY-BASED TARGETS WILL ONLY BE EFFECTIVE IF THE REDUCTION REQUIREMENT IS AGGRESSIVE
Over in Canada, North America's first carbon pricing programme is undergoing a revamp. One of the first courses of action for the newly-elected New Democratic Party government in Alberta was an increase in target and fee in the province's Specified Gas Emitters Regulation. Further changes are afoot, including the possibility of moving to an absolute cap, instead of the current intensity-based one, which can allow emissions to keep growing unless the reduction requirement is aggressive enough, explains John Goetz.

DON'T UNDERESTIMATE THE CONTRIBUTION FROM THE VOLUNTARY CARBON MARKET
It's not just compliance markets that have been making waves: over the course of 10 years, the voluntary carbon market has reduced an additional 1 billion tonnes of emissions. Often a testing ground for new ideas and projects, Jonathan Shopley says it is ready to scale up and do more, quicker than before – particularly as post 2020 pledges so far are not going to get us to 2°C.

TRY TO PROVIDE CLARITY SO BUSINESS CAN PREPARE
In the meantime, there are also firms using what is called a shadow carbon "price", in anticipation of future regulations. In a case study, Angus Gillespie from Shell explains how the firm applies what it calls a project screening value investments – and how the outcomes from Paris could affect this.