

2018: A YEAR IN PREVIEW

THE PAST 12 MONTHS HAVE SEEN A SURGE IN CARBON MARKET DEVELOPMENTS AROUND THE WORLD. CAN 2018 KEEP UP THE PACE? KATIE KOUCHAKJI LOOKS AT THE AGENDA FOR NEXT YEAR

Two years after the historic Paris Agreement was finalised, governments have maintained the momentum on climate action. Throughout 2017 we saw developments around the world – including the start of Ontario's cap-and-trade programme in January, the Cali Declaration by four Pacific Alliance nations to create a voluntary cross-border carbon market, proposed changes to the New Zealand Emissions Trading Scheme (ETS) to get it ready for the Paris era. The later months of the year saw European lawmakers finally agreeing on EU ETS reforms, Singapore signing the Ministerial Declaration on Carbon Markets and, most recently, the Carbon Pricing in the Americas declaration at a summit on 12 December to mark two years since the Paris Agreement was reached.

Next year is set to be equally busy, with a lot of work to turn pledges and promises from words into action. Underpinning it all is the international climate change process, which in 2018 sees the first global stocktake of action under the Paris Agreement, through the Talanoa Dialogue. Taking its name from the Pacific islands concept of open, transparent and inclusive discussion, this dialogue will focus on three main questions: where are we?; where do we want to go?; and how will we get there? Its ultimate aim is to increase ambition – that is, for governments to pursue deeper emissions cuts, sooner than currently planned.

The process is structured into two phases: a preparatory phase and a political one. The former will last for most of 2018, and will feature input from governments, stakeholders and experts,

with discussions to be held in May and at the December UN talks in Poland. The political phase will take place towards the end of COP24, with ministerial participation building on the preparatory phase and focusing on the three questions. The outcome from this is intended to inform Nationally Determined Contributions (NDCs), and drive greater ambition in the NDC process.

Also one to watch is progress on the “rulebook” for the Paris Agreement, which Parties agreed at the Marrakech talks last year to adopt at next year's COP. The negotiations in Bonn in November made some progress, and a draft text for Article 6 is expected to emerge in March – ahead of the next round of talks in May.

The other big piece of international policy to keep an eye on in 2018 is the development of the aviation sector's Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), under the International Civil Aviation Organization (ICAO), which is set to begin in 2021 with a pilot phase. In February, ICAO will convene a three-day seminar on carbon markets, which will take a close look at some of the various emissions crediting programmes from around the world that could be eligible for CORSIA compliance.

This is followed by an ICAO Council meeting in June, during which there may be some decisions about the Emissions Unit Criteria – essentially, which programmes' units will be eligible for CORSIA. This will enable airlines to start getting ready for CORSIA, as well as firming up new sources of demand for the eligible credits.



CHINA, MEXICO NATIONAL MARKETS TO START

Away from the international arena, 2018 is shaping up to be a big year for both existing and new markets – all with an eye on Paris Agreement pledges. China's national ETS is finally set to begin in the early part of the year, in a phased roll-out. Throughout the year, supporting infrastructure for the market will ramp up. At the time of writing, the launch date had yet to be confirmed.

In mid-December, as IETA Insights was going to press, lawmakers in Mexico passed an amendment to the country's historic climate change law to mandate a carbon market; previously, it was voluntary. The first part of the year will see the regulations being drawn up, then in August 2018 a three-year pilot phase will begin. From 2021, the market will formally launch.

EU ETS GEARS UP FOR THE FUTURE

In Europe, February brings a European Parliament plenary vote on the final agreement for the EU ETS post-2020 reform, with Council approval expected around the same time. Details of provisions in the reform package will also need to be worked on next year, such as the benchmarks for free allocations, the Innovation Fund and the Modernisation Fund.

Both the Council and Parliament are also set to approve the ratification of the linkage



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agreement with the Swiss ETS in the first part of 2018 as well – although the markets are not expected to join up before 2020.

Although the Market Stability Reserve does not begin operations until 2019, European Commission data to be published in May 2018 on the total number of allowances in circulation will shed light on how many allowances will be placed in the reserve.

Looking ahead, the European Commission is expected to next year launch a public consultation on the EU’s 2050 strategy, as a review of its current 2050 Low Carbon Roadmap. The bloc is aiming for an 80% reduction in its GHG emissions, compared to 1990 levels, by 2050 – with interim goals of a 40% reduction by 2030 and 60% by 2040.

CARBON MARKETS CONTINUE TO EXPAND ACROSS NORTH AMERICA

Carbon pricing activities across North America are also facing a pivotal year. January sees Ontario’s nascent cap-and-trade system link to the California-Québec markets, as the Western Climate Initiative (WCI) partners take the lead. Other potential WCI market joiners to watch are Washington State and Oregon, while in the east all eyes are on Virginia and New Jersey to see if those states will seek to join – or rejoin, in New Jersey’s case – the Regional Greenhouse Gas Initiative power sector-only market.

Next year will see legislation for Canada’s federal backstop carbon price introduced.

KEY EVENTS

JANUARY	ONTARIO LINKS TO CALIFORNIA-QUEBEC MARKET
FEBRUARY	ICAO SEMINAR; EP PLENARY VOTE ON EU ETS REFORM
MARCH	ARTICLE 6 DRAFT NEGOTIATING TEXT EXPECTED
MAY	UNFCCC INTERSESSIONAL MEETING IN BONN, GERMANY - INCLUDING FIRST TALANOA DIALOGUE DISCUSSIONS
JUNE	ICAO COUNCIL MEETING
SEPTEMBER	POSSIBLE EXTRA UNFCCC NEGOTIATING SESSION; GLOBAL CLIMATE ACTION SUMMIT IN SAN FRANCISCO
OCTOBER	RELEASE OF IPCC REPORT ON IMPACTS OF 1.5°C OF WARMING
DECEMBER	COP24 IN KATOWICE, POLAND

The country’s government has pledged that there will be a carbon price across Canada in 2018, and the federal backstop will ensure that this is met. However, most provinces either have programmes in place already (Ontario, Alberta, British Columbia and Québec) or concrete proposals for introducing a carbon price in 2018 (Manitoba, Nova Scotia).

In California, attention will turn to the rules for its post-2020 market. In 2018, a series of public workshops will be held, and a 45-day public comment period on proposals is anticipated in the second half of the year. The formal rulemaking process, which lasts six to eight months, will run into 2019.

ASIA PACIFIC ACTION

China’s national ETS isn’t the only show in the region – though it will be the largest market. South Korea holds the prestige of the first economy-wide cap-and-trade system in Asia, and the government is expected to announce the rules for the second phase of the three year-old market by early 2018.

WHERE ARE WE? WHERE DO WE WANT TO GO? AND HOW WILL WE GET THERE?

In New Zealand, the new government will pick up the mantle of ETS reform and look to develop legislation to implement the outcomes of this year’s market review process – including on auctions, the use of international credits, and ditching the current NZ\$25 (US\$17) per tonne price ceiling. Further consultations and stakeholder engagement are expected over the coming year.

Finally, in Australia, the outcome of the government’s review of national climate policies is expected in the first half of 2018. This will be key in establishing the post-2020 framework for the country and how it plans to fulfil its Paris contribution.