

Building a Coalition of Carbon Markets to Spur Faster, Deeper Cuts in Climate Pollution

Emission trading programs that cap and cut climate pollution are now underway in over fifty jurisdictions around the world that are home to over 1 billion people. Also known as “carbon markets,” these systems are working to reduce climate pollution in the European Union and four other European countries; in Korea, New Zealand, and Tokyo; in seven cities and provinces in China (soon to be expanded to a national carbon trading system); and in nine northeastern U.S. states, California, and Quebec.

As carbon markets continue to expand, coordination among programs will be increasingly important to ensure environmental integrity and maximize benefits. By supporting the development, harmonization, and increased ambition of domestic carbon markets — including in fast-growing economies — coordination could also help broaden participation in climate action and enable deeper reductions in greenhouse gas emissions. Much as the General Agreement on Tariffs and Trade (GATT) helped galvanize participation and ambition in trade, a voluntary [coalition of carbon market jurisdictions](#) (CCM) could expand the scope and maximize the cost-effectiveness of ambitious climate action around the globe.

Benefits for Coalition Members

The primary focus of the CCM would be the development of common standards or guidelines to ensure the integrity of carbon emission units traded internationally, including standards for transparent monitoring, reporting, and verification (MRV), market oversight, and environmental performance.

Member jurisdictions would enjoy a range of benefits, including:

- assurance that other leading carbon market jurisdictions will apply similarly stringent standards and guidelines;
- increased confidence in the environmental integrity of emission units, particularly those developed and transferred consistent with the coalition’s standards and guidelines;
- enhanced transparency, including in MRV systems;
- information exchange, institutional capacity-building, and policy coordination;
- reputational benefits; and
- flexibility to consider closer cooperation – and potential future linkage.

Over time, the standards and guidelines developed by the CCM could provide the foundation for the development of common trading platforms, enabling jurisdictions to link their carbon markets if they chose to do so. Indeed, CCM member jurisdictions would enjoy an “inside track” on potential future linkages, with a range of additional benefits including access to a shared market infrastructure; reduced barriers to policy adoption; greater price stability and predictability, especially for small jurisdictions; and enhanced access to low-carbon investment capital.

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Benefits for the Climate: Accelerating Action under the UNFCCC

The Paris Agreement affirmed that countries can use internationally transferred mitigation outcomes (“ITMOs”) toward their nationally determined contributions. By moving ahead with the development of standards and guidelines for environmental and market integrity, a coalition of leading carbon market jurisdictions could boost global confidence in the environmental integrity of ITMOs, including by demonstrating, as a practical matter, how to ensure that emission reductions are not claimed toward more than one mitigation pledge.

In addition, by continuing and expanding emission trading programs through a CCM, jurisdictions could accelerate emission cuts called for under the Paris Agreement, and consolidate experience that could usefully inform the multilateral development of accounting guidelines under that Agreement.

A CCM could thus help ensure that as international trading expands, it does so in a way that enhances ambition and secures real, permanent, additional, and verifiable emission reductions. Moreover, the standards and guidelines agreed by the CCM could pave the way for greater cooperation on markets in the UNFCCC, much as the technical advances made by countries in the Forest Carbon Partnership Facility contributed to progress in the UNFCCC on rules governing reducing emissions from deforestation and forest degradation (REDD+).

A Needed Effort that Learns from Existing Initiatives

A coalition of carbon markets would complement, without duplicating, existing efforts like the Partnership for Market Readiness (PMR), International Carbon Action Partnership (ICAP), and the Asia-Pacific Carbon Markets Roundtable (APCMR). These have provided, and are providing, valuable technical assistance to countries interested in developing domestic programs, as well as information exchange and learning among countries with diverse experiences. A CCM would take important next steps by establishing commonly accepted standards and guidelines to ensure high-integrity international emission trading.

Catalyzing the CCM: Next Steps

The CCM could be catalyzed by 2-3 diverse global leaders from jurisdictions with carbon markets already in place. Additional membership could be drawn from countries and jurisdictions that have expressed an interest in using carbon markets to meet their NDCs or that otherwise have an interest and relevant experience in market integrity. The coalition could grow over time to include other interested jurisdictions.

The initial focus would be on mutual exchange of information and experience, specifically focused on emission trading, in order to build common understanding and identify areas for greater coordination to assure environmental integrity. Exploratory meetings could lay the groundwork for an official launch in the next year or two. New Zealand’s Ministerial Declaration on Carbon Markets, or the G7 Carbon Market Platform, could provide a possible forum; or another suitable host jurisdiction could be identified; or the initial discussions could be hosted by an NGO or intergovernmental institution.

With over 50 jurisdictions already having implemented carbon markets, and with the urgency of climate action becoming more and more evident, now is the time to start building a coalition of carbon markets that complements the Paris Agreement and helps deliver the ambitious greenhouse gas emission reductions that climate science demands.

Reference: N. Keohane, A. Petsonk, A. Hanafi, “Toward a Club of Carbon Markets,” *Climatic Change* (2015), <http://bit.ly/1TPYOoM>

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