

# 5th Strategic Dialogue of the Carbon Market Platform

4-5 November 2020

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## 1. Co-Chair Summary

In November of 2020, Canada hosted by virtual means the Fifth Strategic Dialogue of the Carbon Market Platform (CMP). The meeting was co-chaired by Canada and the United Kingdom, as the incoming G7 President.

The CMP brings together a diverse group of countries and organisations with a common interest in developing effective, sustainable and ambitious carbon pricing approaches, including cooperative approaches under Article 6 of the Paris Agreement. The Strategic Dialogue of the CMP, held annually since 2016, is an opportunity for senior officials to share technical, institutional, and political solutions to enhance market-based climate action with the goal of bridging technical and political gaps. This year's Strategic Dialogue was hosted in a virtual setting with participation by approximately 50 officials from 16 different jurisdictions and 10 international organizations. During the meeting, participants were encouraged to share knowledge and best practices on carbon pricing implementation as well as discuss potential synergies between domestic and international market mechanisms, without prejudice to ongoing negotiations under the Paris Agreement Work Programme.

At the end of the Dialogue, both co-chairs highlighted the importance of continuing to use forums such as the CMP to discuss important issues in order to develop and promote a unified message of the potential carbon markets have to not only enhance ambition, but to achieve and exceed our Paris commitments. In closing, it was noted that there remains significant work to be done throughout the coming year in the build up to COP26 and that discussions should continue to take place through the CMP and related fora.

### Exploring the Impacts of COVID-19

The Strategic Dialogue began with a discussion on the impacts of COVID-19 on carbon markets and the ability of those markets to support a green recovery. Participants highlighted that market stability mechanisms have successfully managed COVID-induced fluctuations, while strong political signals of enhanced ambition have reinforced demand, including in voluntary markets. However, it was also observed that policymakers will need to continue to monitor their market stability mechanisms, and to

make improvements as needed, in light of continuing uncertainties. Finally, it was noted that some carbon market actors would benefit from additional policy clarity going forward.

A number of participants shared how the COVID-19 pandemic was affecting carbon pricing schemes in their respective jurisdictions as well as noting that several countries have included carbon pricing as part of their COVID-19 recovery plans. Participants also pointed to Japan's Platform for Redesign 2020, an information platform that will track countries' environmental policies and actions that are planned and implemented in the context of recovery from COVID-19. The discussion served to highlight the importance of building back better from the pandemic to ensure that the opportunities presented are not lost.

### **Increased Ambition and Updated NDCs**

In the second session, participants discussed carbon markets and their relationship with increased ambition and updated Nationally Determined Contributions (NDCs). The presentations highlighted that both policy and technology will be critical to meet our net zero commitments, as well as to keep the implementation of NDCs on track. Participants further noted that carbon pricing is just one of several policy levers that will need to be implemented and coordinated effectively with other domestic and international policies, especially in the power sector. The presenters suggested that many countries do not currently have sufficiently high ambition in their NDCs, and that many are not currently on track to achieve their targets. Further, it was emphasized that both buyers and sellers under Article 6 will have to pay careful attention to NDC ambition and achievement when looking to trade, especially given that Parties are required to continue enhancing their climate ambition over time.

During the discussion, participants noted that while we currently may not be doing enough, many countries are working hard to increase ambition. Participants highlighted planned new Emissions Trading Systems (ETS') that will not only cover a larger percentage of emissions, but also have the potential to be linked to existing systems. Finally, participants discussed how policymakers could maximize the integrity, ambition and efficiency when deciding how to use Article 6, including what analytical tools or policies might be helpful to that end.

### **Benefits of International Carbon Pricing Coordination**

The second day of the Strategic Dialogue began with a discussion on the OECD's paper "*The economic and environmental benefits from international co-ordination on carbon pricing: Insights from economic modelling studies.*" The study reviewed literature on the modelling of indicative carbon prices for achieving NDCs under different scenarios and highlighted findings in several potential methods of cooperation. In its presentation, the OECD noted that the high degree of price variation within specific jurisdictions as well as across different regions means that significant uncertainties remain concerning the potential impact of pricing cooperation. Further, current modelling suggests that global cooperation and trading between jurisdictions could provide benefits in the form of cheaper abatement options, but that such benefits may be unevenly distributed, with developing countries potentially facing higher abatement costs. The OECD noted, however, that co-benefits from technology transfer and reduced pollution could help provide net aggregate benefits overall. Finally, the OECD highlighted that global price linkages could yield greater benefits than regional price linkages by allowing for higher ambition, cheaper abatement costs, and reduced carbon leakage.

The discussion touched on how to address the issue of carbon leakage, including through greater coordination and harmonization among countries as well as through enhanced carbon pricing coverage

within jurisdictions. Discussants also considered the issue of how to address the distribution of benefits resulting from greater coordination and which solution could offer the most benefit. The OECD also highlighted the issue of fossil fuel subsidy reform as another area where increased global coordination could provide greater economic and environmental benefits when compared to jurisdictions acting unilaterally. As with carbon pricing coordination, however, it was also noted that increases in global welfare would be unevenly distributed with fossil fuel importers benefitting more than exporters.

### **Experiences in Internationally Transferred Mitigation Outcomes (ITMO) Pilots**

The last session of the Strategic Dialogue provided an opportunity to share experiences and lessons learned from ITMO pilots. The discussion focused on some of the key elements required for a successful pilot such as flexibility to allow for dynamic growth and development of projects as well as having safeguards in place to ensure environmental integrity. Having a clear legal framework was also highlighted as a key condition for providing certainty for investors. The discussion also touched on better understanding the role of a bilateral agreement (e.g., authorization and recognition of transfer) versus a national framework (e.g., defining title and ownership of credits). Participants also discussed the importance of ensuring corresponding adjustments and noted that frameworks currently being established would need to be flexible enough to accommodate future guidance developed under Article 6 of the Paris Agreement. Finally, discussants highlighted the importance of putting in place safeguards to mitigate the risks of overselling as well as the importance of ensuring sustainable development objectives are featured in bilateral agreements.

## 2. Presentations from each of the sessions (hyperlinked)

### Session 1:

- [Carbon markets and COVID-19](#), William Acworth, Head of ICAP Secretariat
- [Global carbon markets in COVID: Working to deliver a net-zero future](#), Dirk Forrister– President and CEO, IETA

### Session 2:

- [Increased ambition and updated NDCs](#), Chandra Shekhar Sinha, Advisor, Climate Change Group, The World Bank
- [The energy sector perspective in the context of Covid-19 carbon pricing and climate ambition](#), Tom Howes, Head of the Energy and Environmental Division

### Session 3:

- [Economic and environmental benefits from international co-ordination on carbon pricing](#), Daniel Nachtigall and Jane Ellis, Climate Water and Biodiversity Division, Environment Directorate, OECD

### Session 4:

- [Article 6 piloting: State of play and stakeholder experiences](#), Axel Michaelowa, Stephan Hoch, Juliana Kessler, Perspectives Climate Group
- [Experiences in ITMO Pilots](#), Veronika Elgart, Federal Office for the Environment FOEN, Switzerland

## 3. Meeting Agenda

Carbon Market Platform Strategic Dialogue 2020  
November 4-5, 2020

### Agenda

*Virtual – Zoom*

Nov 4	
Time (EST)	Agenda Item and Description
6:00 – 6:15	Rollcall and Technical Notes
6:15 – 6:25	<p><b>Welcome Remarks and Introduction by Co-Chairs</b></p> <p><b>Co-Chairs:</b>  <b>Steven Kuhn</b>, Director General, Multilateral Affairs and Climate Change, Canada  <b>Cath Bremner</b>, Director, Department of Energy and Climate Change, United Kingdom</p>
6:25 – 7:40	<p><b>Session 1: Carbon Markets and COVID-19</b>  Exploring how the COVID-19 pandemic has impacted carbon pricing around the world</p> <p><b>Icebreakers:</b></p> <ol style="list-style-type: none"> <li><b>Dirk Forrister</b>, President, International Emissions Trading Association <i>COVID and Offset Markets</i></li> <li><b>William Acworth</b>, Head of Secretariat, International Carbon Action Partnership <i>COVID and ETSs</i></li> </ol> <p><b>Open discussion and Guiding Questions</b>  It has been noted that the economic recovery from COVID-19 is an opportunity to align post-pandemic recovery plans with the challenge of meeting climate goals:</p> <ul style="list-style-type: none"> <li>How have carbon markets and pricing systems reacted to the COVID pandemic? What key institutional elements have ensured the resiliency of these markets in light of the large supply shocks?</li> <li>How has the pandemic affected public attitudes toward carbon pricing in your jurisdiction? What are the messaging considerations that governments need to consider when discussing carbon pricing in the ‘new normal’?</li> <li>How can carbon markets and pricing support green recovery efforts?</li> </ul>
7:40 – 8:50	<p><b>Session 2: Increased Ambition and Updated NDC’s</b>  Determining what the updating of NDCs and the drive for greater ambition means for carbon pricing</p> <p><b>Icebreakers:</b></p> <ol style="list-style-type: none"> <li><b>Tom Howes</b>, Head of Energy and Environmental Division, International Energy Agency <i>The Energy Sector Perspective</i></li> <li><b>Angela Churie Kallhauge</b>, Head, Carbon Pricing Leadership Coalition <i>The Role of Carbon Pricing in Raising Ambition</i></li> </ol>

	<p><b>Open discussion and Guiding Questions:</b> The Paris Agreement recognizes that the purpose of voluntary cooperation under Article 6 is to allow for higher ambition, and to promote sustainable development and environmental integrity. In communicating or updating their first NDCs, Parties are strongly encouraged to provide information on their intention to use Article 6, if applicable.</p> <ul style="list-style-type: none"> <li>• How can Parties develop approaches to Article 6 that are consistent with and support achievement of their NDC? How can Parties, for instance, avoid crowding out domestic ambition or either overcrediting or underbuying?</li> <li>• How could carbon pricing be expanded as countries update and, in many cases, enhance their NDCs? Are you considering or planning new approaches or instruments within your jurisdiction?</li> </ul>
8:50 – 9:00	<b>Closing Remarks by Co-Chairs</b>

End of Day 1

Nov 5	
Time (EST)	Agenda Item and Description
6:00 – 6:10	<b>Day 1 Recap and Introduction to Day 2 by Co-Chairs</b>
6:10 – 7:20	<p align="center"><b>Session 3: Coordinating International Carbon Markets</b> A presentation from the OECD building on the work of the CMP Working Group</p> <p><b>Presentation:</b></p> <p>1. <b>Daniel Nachtigall and Jane Ellis</b>, Organization of Economic Co-operation and Development <i>“The economic and environmental benefits from international co-ordination on carbon pricing: Insights from economic modelling studies”</i></p> <p><b>Open discussion and Guiding Questions:</b></p> <ul style="list-style-type: none"> <li>• Besides a complete linking of emissions trading schemes, what are the different options for partial coordination or harmonization between different carbon pricing schemes?</li> <li>• How can jurisdictions maximize the overall benefits from cooperation on carbon pricing, while minimizing or addressing any adverse impacts on some domestic actors?</li> <li>• What are the main considerations that a jurisdiction should consider when seeking out partnerships for carbon pricing cooperation?</li> </ul>
7:20 – 8:30	<p align="center"><b>Session 4: Experiences in ITMO Pilots</b> Exploring the implementation of ITMO piloting initiatives around the world</p> <p><b>Icebreakers:</b></p> <p>1. <b>Axel Michaelowa</b>, Perspectives Climate Group <i>Observations from Article 6 Pilots</i></p> <p>2. <b>Simon Fellermeier</b>, Switzerland</p> <p>3. <b>Ousmane Fall Sarr</b>, Senegal</p> <p><b>Open discussion</b> Article 6 recognizes that Parties may choose to pursue voluntary cooperation in implementing their NDCs, such as through cooperative approaches involving the use of internationally transferred mitigation outcomes (ITMOs). Some jurisdictions have begun launching pilot initiatives that explore the possible use of ITMOs, in order to prepare for potential future implementation and/or inform ongoing negotiations.</p>

	<p><b>Discussion questions</b></p> <ul style="list-style-type: none"> <li>• What are the objectives of an ITMO pilot?</li> <li>• What are the key elements of a typical ITMO pilot? How can these pilots build on existing infrastructure and experiences?</li> <li>• What are the experiences with ITMO pilots to date? What plans are there to establish new pilots?</li> <li>• Are there elements of voluntary cooperation that need further work, through pilot initiatives or other means, to prepare for the implementation of Article 6?</li> </ul>
<p><b>8:30 – 8:55</b></p>	<p style="text-align: center;"><b>Session 5: Carbon Markets Platform webpage and Next Steps</b></p> <p>A short discussion concerning takeaways, outstanding questions, and the possibility of establishing a webpage for the Carbon Markets Platform</p> <ol style="list-style-type: none"> <li>1. What will you take away from this year’s Strategic Dialogue?</li> <li>2. What questions would you like to discuss at the next Dialogue, either building on this year’s meeting or exploring new topics?</li> <li>3. What should be the focus of the working group going forward?</li> <li>4. <i>The OECD to present its proposal</i></li> </ol> <p><b>Open discussion</b></p>
<p><b>8:55 – 9:00</b></p>	<p style="text-align: center;"><b>Closing Remarks by Co-Chairs</b></p>

End of Day 2