

Major Economies Business Forum

on Energy Security and Climate Change



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Major Economies Business Forum GHG Markets in the Post-2020 Agreement

Key Messages

- In principle, markets allow consumers and business to identify and pursue the most efficient means to meet their needs and achieve policy goals at lowest cost.
- Nations today are pursuing a wide variety of mitigation approaches, including greenhouse gas (GHG) markets. Many jurisdictions have established GHG markets—based on emissions trading and credits from offsets (emissions reductions from qualified activities)—as a way to meet their mitigation goals efficiently. A variety of GHG markets are being used today in regions, nations, states, provinces, and cities, offering many examples of how markets can be developed under diverse circumstances without a single overarching international design or rules. Equally, many other jurisdictions choose other approaches, including taxes, regulation, subsidy, private sector initiatives, and more.
- The major Economies Business Forum supports properly constructed GHG markets in those nations that choose to use them and linkages between markets once agreed by mutual recognition of governing authorities.
- The future of markets in the Post 2020 Agreement remains uncertain. Some nations oppose the use of a one-size-fits-all GHG market approach to meet obligations under the UNFCCC. Others nations plan to utilize international markets, as described in

their Intended Nationally Determined Contributions (INDC). Still others have chosen not to, at this time.

- BizMEF supports anchoring market-based mechanisms in the Paris agreement through recognition that they may be employed by those nations that voluntarily choose to use them.

Introduction

In the run up to COP-21, GHG markets were discussed as part of Business Dialogues, especially the Business Climate Summit in Paris, among some corporate stakeholders, governments, and others engaged in UNFCCC discussions. Markets are referred to in the Geneva Text of the Paris agreement (both in the Preamble and the sections on mitigation). Nevertheless, discussions in ADP indicate that prospects for carbon markets in the new agreement remain controversial and unsettled at this time.

GHG Markets Role in Mitigation

In principle, properly designed GHG markets (or more commonly “carbon markets”) have the advantage of reducing emissions at the lowest cost to consumer and society, while providing long-term market predictability to the sectors covered by them. This implies, however, that there are no regulatory interventions that distort the market from functioning effectively. Internationally, GHG markets might help stimulate investments in advanced technologies, installations, and products, especially in locations where they can be deployed at the lowest economic cost. Comparable framework conditions would encourage business to participate with minimal competitive disruptions.

Limiting competitive distortions requires establishing a level playing field among

participating nations. Among other elements, this requires utilizing similar methodologies, tools and standards, including clearly defined indicators to assess the performance and efficiency of markets in different nations, while also taking into consideration diverging local conditions.

Emissions trading markets are already being widely used to tackle climate change. They can take various forms:

- at the regional level such as the European Union Emissions Trading Scheme (EU ETS);
- at the national level, such as in New Zealand or South Korea;
- at the state level such as the Regional Clean Air Incentives Market (RECLAIM) in California (US) and the cap and trade scheme of Quebec (Canada);
- at the provincial level such as in the Chinese provinces of Guangdong and Hubei, and;
- at the city level such as Beijing, Tianjin, Shanghai, Shenzhen, and Chongqing in China.

Other countries are also looking into establishing their own GHG markets, such as Mexico. These offer very good examples of how GHG markets can be built and tailored to suit widely differing geo-economic situations. Many other jurisdictions, however, have decided to choose other approaches, including taxes, regulation, subsidy, private sector-led initiatives and more.

It is essential to note that allowances and credits in GHG markets relevant to the UNFCCC serve two separate purposes: they provide economic efficiency 1) for nations to meet their international objectives and 2) for firms (and other covered entities) to meet domestic obligations. Without legal assurance and certainty regarding exchanges undertaken through GHG markets (both trading and offsets), firms will be unwilling and unable to utilize them.

Competitiveness & Other Concerns

Considering the diversity of national circumstances and priorities—such as existing energy mixes, industrial sectors and economies—GHG markets must be flexible to allow for diversified domestic policy measures and the likelihood that even similar policies may have different impacts in different nations, e.g. on competitiveness and social welfare.

Consequently, GHG markets in nations or regions that choose to use them must be able to allow for flexibility to address the international competitiveness of the industrial sectors concerned. While some may easily pass on the costs of carbon, others may not be able (fully or partially) to do so. This situation can give rise to carbon leakage that shifts emissions from one jurisdiction to another, leaving global emissions unchanged or even increased. So long as there is no global level playing field, allowing for flexibility to tackle competitiveness concerns should be part of GHG markets design.

While jurisdictional approaches to competitiveness concerns are important and unavoidable, a patchwork of different approaches has risks of its own.

Jurisdictional approaches will be more efficient, sustainable and trade-friendly if they benefit from ongoing dialogue and information-sharing. Over time, the development of common approaches and co-ordinated action could level the competitive playing field somewhat.

Authorities that choose to build GHG markets and are responsible for market design must also bear in mind its interactions with overlapping policies so as to avoid negative interactions. According to the Third Working Group contribution to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC), "if a cap-and-trade system has a binding cap, other instruments such as subsidies or feed-in tariffs for renewable energies have no further impact on reducing emissions, but may affect the overall costs of the system."

BizMEF Recommendations

BizMEF members call for governments in Paris to affirm that they have the authority to establish national market systems and to link them with others internationally, if they voluntarily agree to do so. An assenting recognition that governments may employ market-based mechanisms as a mitigation option without prejudice to other approaches would provide a positive signal for the private sector to move forward with market tools. As an obvious condition, BizMEF agrees that exchanges in such markets must maintain environmental integrity. To promote this, the Paris Agreement could, inter alia, consider establishing under "various approaches" a process to agree common transparency standards in the implementation phase.

Advanced Manufacturing Coalition for Technology & Innovation
The Australia Industry Group
BusinessEurope
BusinessNZ
Confederation of British Industry
Dansk Industri
Federation of German Industries – BDI
Iniciativa para el Desarrollo Ambiental y Sostenible — IDEAS (Mexico)
Mouvement des Entreprises de France
Keidanren Japan Business Federation
TÜSİAD—Turkish Industry and Business Association
U.S. Council for International Business

ABOUT BizMEF

BizMEF is a voluntary coalition of major multi-sectoral business organizations from major economies. Modeled after the government-to-government Major Economies Forum, BizMEF is a platform for these groups to:

- promote dialogue and exchange views on climate change and energy security across a broad spectrum of business interests including major developed, emerging, and developing economies;
- highlight areas of agreement among participating organizations on the most important issues for business in international climate change policy forums; and
- share these views with governments, international bodies, other business organizations, the press, and the public.

Organizations that have participated in BizMEF meetings represent business groups in Australia, Brazil, Canada, China, the European Union, Denmark, France, Germany, India, Italy, Japan, Mexico, New Zealand, South Africa, South Korea, Turkey, the United Kingdom, and the United States. Collectively, BizMEF organizations represent more than 25 million businesses of every size and sector. Because BizMEF partnering organizations represent a broad range of companies and industries—including energy producing and consuming companies as well as energy technology and service providers—the partnership is able to provide robust and balanced views on a range of issues. For more information on BizMEF, please visit our website at: www.majoreconomiesbusinessforum.org.