



3C (Combat Climate Change) – A Business Leaders' Initiative

Trade: Recommendations for Policy Makers

3C consists of leaders from more than 50 companies from around the world, committed to the integration of climate issues into global markets and the establishment of a new global climate change agreement coming into force in 2013. To support this process, 3C develops recommendations for policy makers on the climate issues most relevant to business. The following recommendations concern development of a global trade in carbon.

Establishing a price on carbon will be the most important mechanism for stimulating emissions reductions in the global economy. Several national and regional entities have begun to develop markets in emission rights as a way to create this price on emissions. While trade in emission rights is not the only solution available or needed to combat climate change, it has great potential to deliver reductions if it is implemented well. Those nations and regions taking the lead can do a great deal to lay the groundwork, and a supportive global policy framework can help promote their success.

The purpose of this memo is to shed light on the key challenges in carbon trade, and to put forward suggestions for frameworks and policies that:

- Establish a goal of global trade in carbon, and support gradual harmonisation of markets in the short term
- Re-establish, simplify, and professionalise the administration of flexible mechanisms in order to scale up their impact
- Emphasise transparency, neutrality and information availability in carbon markets

Challenge 1: Linking carbon markets

Carbon markets are developing in national and regional contexts, but in order to price carbon most effectively, and without distorting global trade, that price will need to be global. While global trade in emission rights will of course take time to emerge, there are important steps that can be taken to support this process by linking markets today. The rewards of doing so – better price formation, a broader base for reductions, technology transfer and positive effects on trade – clearly outweigh whatever political risks this might entail.

Recommendation

A global framework needs to establish a common goal of a global trade in carbon, and provide practical support for the linking national and regional markets in the short term. These objectives can be achieved by:

- Acknowledgment in the agreement that global trade in carbon will support both environmental and development goals
- Giving clear signals about long-term national reduction commitments
- Discouraging policy choices that could distort the relative price on emissions



- Supporting common rules and institutions that will facilitate linkage between markets
- Supporting flexible mechanisms that bridge economies that take on different approaches and commitments. These can establish best practices and relative prices.

Challenge 2: Scaling up the impact of global mechanisms

There has been significant debate about the so-called ‘flexible mechanisms’ – the Clean Development Mechanism (CDM) and Joint Implementation (JI) mechanism. Some analyses have questioned the environmental and political effectiveness of these tools; the 3C Initiative believes that despite some early problems that they are capable of delivering very meaningful projects. These projects not only reduce emissions, they can contribute to technology transfer, rural development, and market development, in some cases more effectively than policy measures have. At the same time, these mechanisms give businesses a competitive tool to manage their carbon risks.

Recommendation:

A new global framework should re-establish, simplify, and professionalise the administration of flexible mechanisms in order to scale up their impact.

- A clear view on the long-term for these mechanisms is essential for investors
- Rules for project acceptance can be tough but they have to be clear to de-risk investment and accelerate project execution
- A ‘positive list’ of project types would encourage investment flows; developing programmatic and policy-based approvals would do so at even greater scale.
- Approval times for projects must be reduced. The IPCC’s network of economists and national energy/environment administrations could provide support for methodology and administration of projects.

Challenge 3: Allocation and transparency in carbon markets

Building carbon markets involves the creation and allocation of massive property rights, and the trading of these rights based on information about how scarce they are. As such, most of the early-stage risks carbon markets will face have to do with fair and effective allocation and the availability of information about allocations and emissions.

Recommendation:

Emphasise transparency, neutrality and information availability in carbon markets

- Auctioning or other distribution of emission rights should be as neutral, inclusive and frequent as possible to keep secondary markets aligned and liquid.
- Rules for auctioning and trading need to be transparent to participants several years in advance, to allow companies to prepare and develop hedging strategies
- Market information needs to be available and accessible. Yearly data needs to be complemented by controlled reporting of (potentially unverified) quarterly data, and this reporting should be coordinated across markets. Internet tools can decrease the administrative burden