Co-Chairs’ summary of the 3rd Plenary IFCMA meeting of 22 - 23 May 2024

This summary highlights key takeaways from the 22 – 23 May Plenary IFCMA meeting. Over 350 delegates from 72 delegations, including 7 (international) organisations, participated in the meeting.

1. Recent developments

1. OECD Secretary-General Mathias Cormann and Deputy Secretary-General Fabrizia Lapecorella opened the meeting by providing an overview of developments since the 2nd Plenary meeting of 14 – 15 November 2023, including:

- Several high-level events, among which a joint UNFCCC – OECD high-level event at COP 28 on 3 December 2023 and a Ministerial Dialogue on taking forward the outcomes of COP28 on 2 May 2024 (see summary).
- The release of a scoping note on carbon intensity metrics, which sets out main approaches and challenges related to the calculation and use of carbon intensity metrics, and forms the basis for a more detailed report discussed at this Plenary meeting.
- The launch of a pilot study with Nigeria, which together with pilots for Chile, Switzerland, and future pilots, will help inform the methodologies for the IFCMA’s stocktake, mapping and modelling work.
- Informal Focus Group discussions that took place in March and April 2024 on experience with modelling in Denmark and Costa Rica, as well as on the mapping of policies to the emissions they relate to in the context of the pilot studies.

2. They highlighted that the 3rd Plenary meeting formed an important milestone to advance work, including through:

- The discussions under the Inclusive Multilateral Dialogue on taking forward the outcomes of COP28 and strengthening international coordination.
- Gathering feedback from delegates on the 2024 Carbon Intensity Report and hearing from business stakeholders on the key challenges they are facing in measuring emissions.
- Discussing the first results of the pilot studies with Chile and Switzerland.
- Exchanging experiences with carbon pricing during the lunch briefing hosted by the United Kingdom, with further presentations from Canada, China, and the Netherlands.

2. Inclusive Multilateral Dialogue

3. Following the conclusion of the first Global Stocktake (GST1) at COP28, delegates discussed how to take forward these outcomes, focusing both on policy planning to underpin the enhanced NDCs and how to strengthen international coordination to support a cost-effective and
inclusive transition away from fossil fuels. Scene-setting presentations by the UNFCCC, the OECD Secretariat, Costa Rica, the EU and the US, as well as an issue note by the OECD Secretariat on international coordination provided background for the discussions. The key takeaways are highlighted in a separate summary (forthcoming). Delegates raised the following key points:

- **Translating ambition into action – policy planning to underpin NDCs:** Advancing the outcomes of GST1 requires comprehensive mitigation efforts across countries to bridge the gap between ambition and implementation, in a nationally determined way. As countries update their NDCs, robust policy frameworks, intermediate targets, and stakeholder consultations will be essential. Renewable energy deployment remains a cornerstone, yet infrastructure, capacity, and regulatory challenges persist. In addition, mobilising investment for renewable energy is challenging in the current economic climate, with taxation and subsidies available as potential tools to catalyse private investment. At the same time, phasing out fossil fuel subsidies is politically and socially complex, but important to rebalance their costs relative to renewables. For hard-to-abate sectors, such as emission-intensive industries, emerging technologies like low-carbon hydrogen and Carbon Capture, Utilisation, and Storage (CCUS) hold promise, though uncertain future costs and adoption rates complicate policy planning. Ultimately, credible investment plans, supported by private, public, and international finance, are crucial to achieve the targets set by GST1.

- **Strengthening international coordination to support a cost-effective and inclusive transition away from fossil fuels:** There is need for an open and frank discussion on the potential cross-border impacts of different mitigation policies, as well as the broader macroeconomic implications of the transition. The transition to net-zero will likely reshape trade flows and countries’ comparative advantages, with potential effects on economic development, competitiveness, and the labour market. International coordination can help countries minimise potential trade distortions and other negative spillover effects, while seizing opportunities for positive ones, such as technology transfers. The Inclusive Multilateral Dialogue, as a ‘safe space’ supported by the IFCMA’s technical work, can facilitate common understanding amongst countries on cross-border spillovers. In particular the work on carbon intensity metrics has potential to play an important role in trade-related climate discussions. Working towards common or interoperable approaches to measuring carbon intensity can be an important step to support international cooperation on the trade and climate nexus.

3. **Carbon Intensity Report**

4. The Secretariat presented the first draft of the 2024 Carbon Intensity Report, which builds on the scoping note released in February 2024. The Secretariat highlighted the key messages of the report:

- Carbon intensity metrics have several use cases for governments, firms, and households, but many of these use cases call for more granular, accurate, and timely data than are currently available.

- Using site- and supplier-specific primary data will generally yield the highest accuracy, but there is a trade-off between accuracy and associated resource requirements. In addition, the verification and sharing of data along the supply chain to enable the calculation of product-level metrics faces various economic, technical, legal, and regulatory barriers.

- The proliferation of product-level carbon intensity standards, initiatives, and methods that vary across sectors and regions can increase firms’ reporting costs and fragment global supply chains. Common approaches and best practices can reduce the complexity and risk of
fragmentation arising from the use of carbon intensity metrics within policies. In this context, international cooperation could play an important role to align product-level carbon intensity methodologies across sectors and countries.

- Developing countries and SMEs face notable challenges in computing carbon intensity metrics, which merit targeted support.

5. **A panel of industry stakeholders, including representatives from the Abu Dhabi National Oil Company (ADNOC), the China Baowu Steel Group Corp., Ltd, Business at OECD, and Dow Inc, subsequently shared their perspectives on the challenges faced by industry in measuring product-level carbon intensities.** They highlighted the following key messages:

- Lack of harmonisation of methodologies, across sectors and countries, and complexity of value chains, pose significant challenges. Upstream suppliers may provide varying metrics for the same inputs, based on where they were produced. The fragmentation in measurement and reporting approaches means there is often an unfair comparison between companies, where metrics are taken at face value without due consideration of the process that led to them.

- Translating installation emissions to product-level is challenging where installations produce various products, and especially when installations significantly differ from one another. Current data collection infrastructure is often only able to provide site-level carbon intensity metrics and moving towards product-level would require significant investment in data collection, processing, and verification instruments. While improvements in technologies may have reduced cost somewhat, they cannot overcome the challenge of fragmentation of measurement methodologies.

- SMEs and firms in developing countries face particular challenges. They often face capacity constraints or are working with less mature emission reporting frameworks – a challenge that is compounded when they have to face different reporting standards. Verification of carbon intensity metrics is difficult due to the limited number of reliable third-party verification agencies in many developing countries. These barriers may exclude SMEs and those in developing countries from participating in international supply chains, locking them out of markets which impose high measurement requirements.

- In this context, measurement and reporting obligations, if not properly designed, might harm competitiveness and create trade barriers. There is a need for inclusive discussions across governments, industries, and business groups to address challenges and suggest strategies like leveraging established efforts, promoting technology, proportional approaches, and ensuring safe information sharing. Governments need to promote unified standards and international collaboration to avoid fragmentation. Discussions through the IFCMA and taking inspiration from other initiatives such as the EU Digital Product Passport can facilitate this process.

6. **Countries expressed their support for the draft 2024 carbon intensity report and emphasised the need for further international cooperation on carbon intensity metrics.** They highlighted the following key messages:

- Delegates noted that the report was comprehensive, balanced, and timely, and especially relevant for officials working on the nexus of trade and climate policy. They also welcomed ongoing engagement with industry stakeholders, which is crucial to properly identifying and addressing the challenges they face.

- There was strong support for further work to facilitate the harmonisation or mutual recognition of measurement methodologies, and working towards the principles of ensuring proportionality, promoting innovation and competition, and fostering interoperability, as suggested in the report. The ‘Companion Paper’ to the 2024 Carbon Intensity Report will take a first step in analysing
existing measurement methodologies to investigate issues relating to their interoperability and exploring potential for standardisation.

- In this process, delegates recommended further analysing the following issues:
  - Challenges related to data collection, verification, and sharing information along the supply chain, which may also include capacity, integrity, and legal issues.
  - How to ensure fairness and a competitive level playing field among companies, while taking into account the specific challenges of SMEs and companies in developing countries.

4. Initial pilot study results for stocktaking and mapping mitigation and mitigation-relevant policies, and estimating their emissions impact (M1 and M2)

7. The Secretariat presented the progress and preliminary results of the Chile and Switzerland IFCMA pilot studies on stocktaking, mapping, and modelling the impact of mitigation policies. Since the launch of these pilots the Secretariat has collected detailed information on 72 policy instruments, with 604 sub-schemes and around 15 500 datapoints for Switzerland, and 36 policy instruments, with 93 sub-schemes and 4 300 datapoints for Chile, spread across different sectors. The pilots have already proved useful for refining the data structure, data collection and workload planning, which are important steps for scaling up the work to a broader set of IFCMA members. As key lessons learned from these pilots, the Secretariat noted that:

- A balance needs to be struck between describing policies in detail and the resources required to collect and validate the necessary descriptive data. This has implications for the scope of instruments included, the number of sub-schemes covered, and the number of instrument attributes included. The inclusion of subnational policies in Switzerland had proven challenging in terms of both data collection and validation.
- The pilots have contributed significantly to the development of a comprehensive and robust taxonomy to structure the IFCMA policy database. They have helped set clear definitions and options to harmonise data to ensure it remains comparable.
- The substantial amount of data expected to be collected implies a need for an effective collection and validation strategy that accommodates the varied information availability and capacities of IFCMA members and is supported by appropriate technical infrastructure.
- Different characteristics of the models used to estimate effects on emissions can affect the scope and detail of the assessment. Inputs from sectoral models can vary and lend themselves to different outputs. At the same time, the experience acquired in working with the TIMES model used in Switzerland is useful, since this model is used in multiple other countries, meaning that the approach could be easily replicated.
- Aligning the timescales of different models and the adjustment of the base year for some models can be resource intensive. Setting up the modelling framework took time which is important to factor into timelines moving forward.

8. The delegations of Chile and Switzerland shared their perspectives on the collaboration with the Secretariat so far and the use of the pilot studies for their domestic processes. They noted their appreciation for the work, efforts, and engagement of the Secretariat as well as the outputs produced thus far:
Switzerland mentioned that it finds the information from the policy instrument stocktake useful for its reporting requirements under the UNFCCC, and that mapping could support the identification of potential for policy action. They also underscored that the workload was manageable but nevertheless recommended a careful consideration of the instrument and attribute scope.

Chile noted that the policy stocktake helped it gain a better understanding of the scope of current mitigation action in different sectors (or lack thereof in the mining sector), supporting policy discussions on which areas require further action. It also helped identify mitigation-relevant policy instruments that may otherwise been overlooked in domestic climate discussions. For example, the results revealed that multiple transport instruments apply to the same GHG emissions, highlighting complementarities, but also potential redundancies.

9. **Countries welcomed the initial results of the pilot studies and expressed support for further work that will be conducted in this context.** Delegates highlighted the following key messages:

- They looked forward to the methodology reports, with further detail about how different models are being linked, the underlying assumptions and the establishment of the reference scenario, and how to account for the different interaction effects of policies. A significant number of countries are interested in linking their own sectoral and economy-wide models. By providing a detailed overview with the experiences in the pilot studies on modelling, countries could start conducting similar work.
- The mapping work provides countries with an interesting and useful new perspective to analyse the coverage, interactions, and overlaps of different mitigation(-relevant) policies.
- The pilot studies will play an important role in demonstrating the feasibility of certain approaches, such as modelling individual policies or policy packages, and the scope and detail captured in the policy stocktake. In this regard, it is a likely trade-off between granularity and maintaining a manageable workload, although the pilots so far demonstrate that a large amount of high quality and granular data can be collected in reasonable timeframes.
- It is important to maintain alignment between the IFCMA’s work and reporting requirements under the UNFCCC and Paris Agreement. There is a clear interest in enabling countries to use their IFCMA data to fulfil their international reporting obligations if they wish to do so.
- There is some interest in analysing the macroeconomic impact of mitigation policies.

5. **Lunch briefing on experiences with carbon pricing**

10. **During the lunch break on 23 May, the United Kingdom, Canada, China, and the Netherlands organised a briefing on how they have sought to implement carbon pricing policies in different contexts and how carbon pricing shapes their decarbonisation strategies alongside spending and regulation.**

- The **United Kingdom** presented on its longstanding experience with carbon pricing and the fundamental role they envisage for pricing to achieve net zero. It focused on its experience in designing carbon pricing, its proposed role in meeting the UK’s legally binding carbon budgets, and efforts to expand pricing mechanisms.
- **Canada** shared its experience implementing carbon pricing in a federal context and provided an overview of the federal carbon pricing system designed as a ‘backstop.’ It discussed the role played by carbon pricing in its emissions reduction plan and the importance of revenue recycling as part of the carbon pricing policy.
**China** shared achievements and lessons learned in the development of its National Carbon Emissions Trading Market, including on data management.

The **Netherlands** presented its national CO2-levy for industry. This is a type of floor price in addition to the EU ETS and aims to provide a high carbon price incentive of EUR 150/tonne of CO2 in 2030 to decarbonise industrial emissions, while also avoiding risks of carbon leakage. The policy mix includes subsidy schemes for technology development and decarbonisation.

11. **Some of the key messages highlighted in the presentations and subsequent discussions include:**

- **Complementary policies and stakeholder engagement:** Effective carbon pricing requires a combination of regulatory policies and spending programmes together with continuous dialogue to align decarbonisation targets and policies.

- **Communication and public support:** Clear communication about the benefits and mechanisms of carbon pricing, along with revenue recycling to households and businesses, is essential for maintaining public support. In several countries, revenue recycling schemes are not well known among the public, necessitating intensification of communication efforts to ensure they are effective in mobilising public support.

- **Data quality and monitoring:** Accurate data management through rigorous monitoring, reporting, and verification systems is fundamental to the success of carbon markets. Utilizing both traditional accounting methods and advanced continuous emissions monitoring systems ensures accurate emissions data and enhances market credibility.

- **Price signal strength and stability:** Ensuring that carbon pricing provides a strong and stable market signal is crucial for businesses to commit to long-term investment in decarbonisation. Setting the right carbon price is a political challenge, as it must balance being high enough to drive emissions reductions and investment in green technologies, while not imposing excessive costs on industries and consumers, which requires careful negotiation and stakeholder engagement.

- **Gradual and flexible implementation:** Expanding sector coverage and adapting carbon pricing mechanisms gradually, based on national circumstances and feasibility, helps ensure smooth implementation and effectiveness. Gradually increasing the carbon price and focusing on sectors with high emissions intensity drives innovation and decarbonisation effectively.

- **Carbon leakage:** Numerous countries are implementing or are considering implementing measures to mitigate carbon leakage, notably in the form of border carbon adjustments (BCAs). The introduction of these measures usually takes place in parallel to phasing out free allowances for trade-exposed emission intensive industries. There are however different perspectives on the risks carbon leakage poses and the methods to address them, pointing towards the need for international dialogue and cooperation.

**6. Next steps and planning for 2024**

12. **The Deputy Secretary-General provided an overview of the steps towards the 4th Plenary meeting on 2 – 3 December 2024:**

- **Inclusive Multilateral Dialogue:** Following this meeting’s discussions, the Secretariat will support the Co-Chairs in summarising the key takeaways and circulating them to delegates. These takeaways, together with further member input, will be considered by the Steering Group as it
further develops the schedule for the Inclusive Multilateral Dialogue, including the session to be held at the December meeting.

- **Carbon Intensity Workstream:** Following the discussions in this meeting on the 2024 report and the written comments received, the Secretariat will revise the report and circulate it for approval and declassification by IFCMA Members. The quantitative analysis that was originally envisaged to be part of the report will be included in a ‘companion paper’ to be delivered later in 2024. Simultaneously, an Informal Focus Group discussion will be organised on 9 July to gather delegates’ input on potential further work under this workstream, with a formal proposal to be approved by delegates at the December meeting.

- **Stocktake, mapping, and modelling work under Modules 1 and 2:**
  - Following the initial results from the Chilean and Swiss pilots discussed at this plenary meeting, final results are expected to be delivered during the 2 – 3 December meeting. The Secretariat will also advance the work on the Nigerian pilot and potential future pilots, including Mauritius.
  - Based on the experience gathered from the pilots, the Secretariat will bring numerous methodological issues, including the data structure, proposed data collection strategy, and infrastructure necessary to host the stocktake database, to the December meeting where guidance is needed to enable the scale-up to a broader set of countries.
  - A first informal discussion of the main and preliminary findings of a literature review on ex-post evidence of the effect of mitigation(-related) policies is expected to take place as part of an Informal Focus Group discussion on 26 September.
  - The Secretariat will host numerous further Informal Focus Groups for the Modules 1 and 2 work, based on the interests and priorities of delegates.