



1st STRATEGIC DIALOGUE OF THE CARBON MARKET PLATFORM

16-17 June 2016

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1. Co-Chair Summary

Opening of the Meeting

From 16 to 17 June 2016, representatives from Australia, Canada, Chile, the European Commission, France, Germany, Indonesia, Italy, Japan, Korea, New Zealand, Senegal, Switzerland, United Kingdom, United States and Vietnam as well as from the International Carbon Action Partnership (ICAP), the Organisation for Economic Co-operation and Development (OECD), the United Nations Framework Convention on Climate Change (UNFCCC) secretariat and the World Bank met in Tokyo, Japan, for the first Strategic Dialogue of the Carbon Market Platform, which was established based on the Leaders' Declaration of the G7 Summit at Schloss Elmau in Germany in June 2015.

The Strategic Dialogue was opened by H.E. Ms. Tamayo Marukawa, Minister of the Environment, on behalf of Japan as this year's host country and was co-chaired by Mr. Shigemoto Kajihara, Vice-Minister for Global Environmental Affairs at the Ministry of the Environment of Japan (MoE), and Mr. Karsten Sach, Director General for Climate Policy, European and International Policy at the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB) of Germany.

Session 1: Sharing country information – development of carbon markets and carbon pricing in the context of nationally determined contributions (NDCs)

Each participating country presented and shared views and experiences on using carbon markets, carbon pricing and regulatory instruments as part of the national climate policy mix and in the context of the future implementation of its nationally determined contribution (NDC). Participants highlighted the value of exchanging best practices and experiences (such as policy implementation and improvement, coherence between different instruments, necessary structural changes, impacts on existing policies) and the need to identify barriers (such as political issues, capacity building needs, lack of expertise, competitive/carbon leakage concerns) and future arrangements (international developments, access to larger markets) when planning and implementing climate policy approaches. Participants also stressed the need to consider that countries choose different approaches according to their national circumstances and have different

contingencies and expertise.

Further specific points mentioned and addressed were the following:

- Relationships between domestic and international measures as well as national and sub-national measures, and forms of international cooperation (i.e. bilateral and multilateral);
- Possible ways for achieving emission reduction targets through better designing and implementing policy measures including carbon markets, carbon pricing and regulatory instruments;
- Effective usage of carbon tax and ETS revenues and relationship between carbon tax and other taxes;
- Imbalance of supply and demand in carbon markets, absence of a global carbon price, economic impacts and industrial competitiveness;
- International linkage of ETSs, introduction of floor prices on carbon;
- Need for aligning various climate policies such as pricing/market instruments and regulatory measures;
- Importance on engaging business and industrial sectors;
- Predictability of climate policy.

It was noted that this type of information sharing within the Platform could be important for implementing national policies for achieving emission reductions effectively. As it is intended to extend the participation in the Platform to further countries, while ensuring efficient information sharing and avoiding duplications with the UNFCCC negotiation process, invitation of few more countries to join the dialogue was proposed.

Session 2: Potential for international cooperation under Article 6 of the Paris Agreement

The session started with two keynote presentations by the World Bank and the UNFCCC secretariat. The World Bank presented key characteristics of Article 6.2 and 6.4 of the Paris Agreement and efforts of the World Bank Group on carbon pricing and markets. The presentation highlighted that the World Bank Group can play a key role not only to mobilize support by scaling up finance, but also to provide technical and knowledge support for countries' market readiness. The presentation also explained the different World Bank carbon pricing initiatives such as the Carbon Pricing Leadership Coalition (CPLC), the Partnership for Market Readiness (PMR), the Transformative Carbon Asset Facility (TCAF), and the Networked Carbon Markets Initiative (NCMI) and drew conclusions regarding their contribution to operationalizing Article 6. The Carbon Market Platform was seen as complementary to these initiatives.

The presentation by the UNFCCC secretariat summarized implications of Article 6 of the Paris Agreement which provides countries with opportunities to use internationally transferred mitigation outcomes (ITMOs) and UN-backed credits to achieve their NDCs. It was mentioned that it is necessary to get some clarity on the needs and expected use of carbon markets and to determine which issues should be addressed in the proper negotiations and which issues in the margins (i.e. through international and expert level dialogues).

After the presentations, participants discussed how the Platform could facilitate international cooperation for implementation of market mechanisms to support environmentally sound and cost-effective mitigation outcomes and potentially complementing the process under the UN- FCCC. Possible linkages between the initiatives by international organizations and the UNFCCC process were perceived. It was pointed out that format and level of cooperation depend on the stage countries are in, diversity of international cooperation has to be ensured (bilateral and multilateral cooperation, government-to-government actions) and pros and cons of different kinds of cooperation need to be revealed, including non-market approaches. It was also pointed out that there were crosscutting issues on the use of market mechanisms not only regarding technical matters such as avoidance of double-counting, which may be discussed at expert level, but also

politically important key points and questions (environmental integrity, transparency, ambition raising, sustainable development) , which the Platform should discuss. Sharing experiences on international cooperation was seen as very helpful (different kinds of ETS linking, bilateral mechanisms) and it was mentioned that it could be important to look at other mechanisms to learn about their successes and challenges in order to build a new better mechanism.

Session 3: Toward an effective international architecture for carbon markets: key issues

The session started with two keynote presentations by the OECD and ICAP. The OECD presented lessons learned from OECD-IEA engagement on carbon market issues, finishing with a reflection on the complexity with regard to designing effective carbon markets in the future under the Paris Agreement. The presentation also raised the question on how to best accommodate flexibility, diversity, environmental integrity, and simplicity in rules and procedures. Some countries also saw the necessity for simplicity of guidelines and rules stressed by the OECD. The issues and challenges for linking of different market mechanisms such as compliance and environmental integrity were also raised.

The ICAP presented its views on successful linking of ETS highlighting the importance of joint leaderships among schemes and creation of mutual trust and understanding. The ICAP also mentioned challenges regarding robust accounting under the Paris Agreement as different capabilities of countries need to be taken into account, whereby the international accounting for linked ETS would be comparatively easy.

Participants exchanged their views on the elements necessary for effective international architecture for carbon markets, while emphasizing the complexity of issues and trust in the environmental outcome is key. Various ideas such as sharing of experience, developing standards, and exploring cooperation were proposed by countries as possible areas of work of the Platform. Some countries pointed out that the Platform can facilitate the development and implementation of carbon markets.

Some countries proposed to consider what kind of standards will be necessary for Article 6 under the Paris Agreement. It was also noted that discussions on the framework for various approaches (FVA), non-market approaches (NMA) and a new market-based mechanism (NMM) in the past should be utilized for future discussions on Article 6.

Participants recognized that the Platform should set an example for tangible measures in order to ensure environmental integrity, sustainable development and transparency while the international rules for accounting need to be addressed. In this regard, participants highlighted the Joint Crediting Mechanism (JCM) as an example for a bilateral approach under Article 6.2.

Session 4: Summary of the 1st Strategic Dialogue discussions and the way forward

The session summarized the main issues of the discussions at the Strategic Dialogue and set out the way forward. In order to foster robust and sustainable development of carbon markets internationally, it was highlighted that the Platform can play a significant role in creating a bridge between technical and political issues and spreading political messages, facilitating robust NDC implementation, supporting and accelerating the UNFCCC process and guiding the technical level, while avoiding duplication of other existing initiatives and the UNFCCC negotiations and taking into account national preferences and circumstances. The Platform could also assume an active outreach role in providing countries with useful information and experience on efficient climate policies. Value was also seen in sharing experiences and options with regard to private sector involvement.

Although rules, standards and procedures are developed by the UNFCCC process, participants recognized that the Platform was able to contribute to the outcomes under the process by sharing common views on necessary elements and clarifying which issues should be addressed through cooperation or which in the UNFCCC process. Participants shared the future schedule of existing initiatives such as Asia Pacific Carbon Market Roundtable and Ministerial Declaration on Carbon Markets. It was noted that each initiative should not duplicate activities in the future.

It was highlighted that continuous dialogue that will engage policymakers at the Director- General level is essential in order to obtain high-level guidance on technical issues. In this regard, the second Strategic Dialogue will be held in Italy in 2017, co-chaired by Italy and Germany. The participants noted that a side event during COP22 in Marrakesh, Morocco, will be the good opportunity to outreach the role and value of the Carbon Market Platform.

A scoping paper will be circulated at the beginning of October and participating countries will be asked to send comments in the course of the month, aiming at having a final version right before COP22. This scoping paper will cover existing carbon pricing and market initiatives and their specific role and function, the role of the Platform and possible interactions with other initiatives, as well as analysis on how to build on existing preliminary work and to use countries' existing experience. Moreover, the scoping paper will encompass a specific work stream on the different cooperative approaches countries may choose, including reflections on basic principles that could facilitate such approaches. A second work stream will look at options and ways to support the UNFCCC's work on Article 6

2. Presentations from each of the sessions (hyperlinked)

Session 1:

- [Role of carbon pricing in achieving NDC objectives: Canada's perspective](#), Lynda Danquah - Canada

Session 2:

- [Discovering options for cooperative approaches and ITMOs under PA](#), Dr. Venkata Putti - World Bank Group
- [The Paris Agreement Implications for markets and pricing](#), Conor Barry - UNFCCC

Session 3:

- [Toward international architecture for carbon markets](#), Richard Baron - OECD
- [ICAP Input to Session 3](#), Dr. Constanze Haug - ICAP

3. Meeting Agenda

Carbon Market Platform Strategic Dialogue 2016
16-17 June 2016
Dai-Ichi Hotel Tokyo, Room “LA ROSE II” (5th floor)
Agenda

DAY 1

8.30 a.m. – 9.00 a.m.	Registration & welcome coffee
9.00 a.m. – 9.10 a.m.	Welcoming remarks <i>by Tamayo Marukawa, Minister of the Environment, Japan</i>
9.10 a.m. – 9.20 a.m.	Opening remarks and introduction to the 1st Strategic Dialogue <i>by Co-Chairs</i> <i>Shigemoto Kajihara, Vice-Minister for Global Environmental Affairs (MoE)</i> <i>Karsten Sach, DG Climate Policy, European and International Policy (BMUB)</i>
9.20 a.m. – 11.00 a.m. (100 mins)	Session 1 Sharing country information – development of carbon markets and carbon pricing in the context of nationally determined contributions (NDCs) Part 1 <i>Chaired by Germany</i> Short remarks/presentations by Japan, Vietnam, Indonesia, Korea, United States, Canada (max. 5 minutes per country), followed by Q&A and discussions.
11.00 a.m. – 11.30 a.m.	Coffee break
11.30 a.m. – 1.00 p.m. (90 mins)	Part 2 <i>Chaired by Japan</i> Short remarks/presentations by EU (possibly added by Italy, France, UK, Netherlands, Germany), Switzerland, Senegal, Australia, New Zealand, Chile (max. 5 minutes per country), followed by Q&A and discussions. Questions for discussion: <ul style="list-style-type: none">• <i>What is your country’s experience with carbon markets/pricing and regulatory instruments as effective climate policies?</i>• <i>What role will carbon markets/pricing and regulatory instruments play in the implementation of NDCs?</i>• <i>Which factors can support or impede the development and implementation of carbon markets/pricing and regulatory instruments?</i>
1.00 p.m. – 2.00 p.m.	Lunch break

2.00 p.m. – 5.00 p.m.

(180 mins) Incl. coffee break

Session 2

Potential for international cooperation under Article 6 of the Paris Agreement

Chaired by Germany

Lead presentations by the World Bank and UNFCCC, followed by Q&A and discussions.

Questions for discussion:

- *What kind of international cooperation is under consideration in your country? What specific activities would you consider suited for international cooperation under Article 6 of the Paris Agreement?*
- *What could be the potential role of groups of countries in the context of ETSs and crediting mechanisms?*
- *What can be identified as “cross-cutting” issues among different types of approaches in relation to the use of carbon market?*
- *How can the Carbon Market Platform contribute to the development of international cooperation in line with the UNFCCC?*

Incl. coffee break

5.00 p.m.

End

DAY 2

8.30 a.m. – 8.45 a.m.

Report of the outcome of the first day

Chaired by Germany

8.45 a.m. – 10.45 a.m.

(120 mins)

Session 3

Toward an effective international architecture for carbon markets: key issues

Chaired by Germany

Lead presentations by OECD and ICAP, followed by Q&A and discussions.

Questions for discussion:

- *What are considered key issues for the functioning of carbon markets internationally?*
- *How to ensure and promote environmental integrity, transparency and sustainable development in the use of carbon markets?*
- *What can robust accounting cover, including for the prevention of double-counting?*
- *How can the Carbon Market Platform contribute to moving forward on these issues?*

10.45 a.m. – 11.15 a.m.

Coffee break

11.15 a.m. – 1.00 p.m.

(105 mins)

Session 4

Summary of the 1st Strategic Dialogue discussions and the way forward

Chaired by Japan

Wrap-up by Japan and Germany, followed by comments and discussions.

Questions:

- *What are the key findings of the 1st Strategic Dialogue?*
- *What further activities the Carbon Market Platform undertake in 2016?*
- *What issues could be addressed in the next Strategic Dialogue and in future sessions?*