



2nd STRATEGIC DIALOGUE OF THE CARBON MARKET PLATFORM 27-28 September 2017

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1. Co-Chair Summary

I. OUTCOME OF THE 2ND STRATEGIC DIALOGUE OF THE CARBON MARKET PLATFORM

The 2nd Strategic Dialogue of the Carbon Market Platform (CMP) took place in Rome from 27 to 28 September 2017 and was chaired by Francesco La Camera (Director-General MoE, Italy) and Karsten Sach (Director-General BMUB, Germany). More than 70 representatives from 17 countries and international organisations ICAP, IMF, OECD, UNFCCC, UNEP, World Bank, participated in the meeting.

The aim of the 2nd Strategic Dialogue was to discuss the development of carbon pricing policies in light of the Paris Agreement. The following sections present a flashlight of the discussions the various inputs sparked among participants during the 2-day conference. ¹

1. International momentum for carbon pricing

The CMP acknowledged the growing international momentum for carbon pricing by inviting inputs from various initiatives, covering a variety of countries and sectors, as well as state and non-state actors. The input by Ottmar Edenhofer (Potsdam Institute for Climate Impact Research on behalf of the Carbon Pricing Leadership Coalition) stressed that international efforts should not aim at reaching a uniform global carbon price but rather focus on coordinating carbon pricing policies in order to achieve converging prices over time. Further, he acknowledged the importance of recycling carbon pricing revenues and the need for complementary measures in order to achieve national climate targets.

Gerrit Hansen (Germanwatch) pointed out that different sectors are increasingly working together on carbon pricing policies: business, civil society, and think tanks managed to come together in their

¹ The agenda, background papers and presentations of the 2nd Strategic Dialogue of the CMP can be accessed via <http://www.minambiente.it/pagina/meeting-g7-carbon-market-platform-2nd-strategic-dialogue-rome-27th-28th-september-2017>

respective G20 engagement groups (B20, C20, T20) to publish a joint statement in which they support carbon pricing policies, phasing out fossil fuel subsidies and enabling financial markets to deliver on sustainable development. Although many had hoped for stronger language on carbon pricing policies in the G20 and G7 outcome documents, participants agreed that it was a strong signal for the implementation of the Paris Agreement.

Jos Delbeke (European Commission) reflected these considerations in his presentation on the European emissions trading system: whereas concerns of industrial competitiveness and carbon leakage needed to be addressed, ratcheting up ambition was key for implementing Paris. There was a lively discussion among participants whether quantity or price based mechanisms were the best instrument for raising ambition in cap-and-trade systems, with some arguing that reaching the cap was crucial and would be delivered by the system, and some showing concern over low prices and their insufficient inducement of low-carbon investments.

2.The role of carbon pricing in raising ambition

Following the discussion on international momentum for carbon pricing, the CMP analysed different options for raising ambition with carbon pricing instruments, with a focus on the role of international cooperation. Andrew Howard (KORU climate) presented various approaches and stressed that the main criteria for assessing rising ambition was the delta between current and future levels of ambition that are reflected in nationally determined contributions (NDCs). Therefore, the discussion was guided by the question how a carbon market framework could incentivize deepening and/or broadening the scope of NDCs. In this regard, participants highlighted that the Facilitative Dialogue (FD) should encourage parties to clarify scope, coverage, and timeframe of their respective NDC as this was the only way to assess whether ambition was raised or not.

What role for international cooperation? Some countries stated that cooperation of any kind should aim at raising ambition. Others argued that international cooperation should not be a “cheap way out” and, in cap-and-trade systems, caution should be given that only high-quality credits that ensure mitigation are used. Most agreed that linking cap-and-trade systems would not automatically raise ambition but preference should be given to internationally coordinating carbon pricing policies as well as calibrating them in a way that allows for raising ambition. Participants agreed that it should be investigated how the CMP could contribute to the FD.

3.Effective carbon prices: fossil fuel subsidies

Whereas raising ambition via international cooperation is crucial for reaching the target set out by the Paris Agreement, on the domestic level, carbon pricing policies need to be aligned with the wider policy environment to take full effect. With inputs from Shang Baoping (IMF), Venkata Ramana Putti (World Bank), Joy Kim (UNEP), Kurt van Dender and Ron Steenblik (both OECD), the CMP acknowledged that negative carbon prices, i.e. fossil fuel subsidies, should be given particular attention. Phasing out fossil fuel subsidies and designing additional national climate policies in a way that does not impair existing carbon pricing policies was considered essential for generating effective carbon rates. In particular, the implementation of comprehensive fiscal reforms aimed at shifting taxation from labour and capital to assets and environment was discussed.

Those “green fiscal reforms” aim at removing special tax provisions that are environmentally

harmful and economically inefficient; restructuring energy and vehicle taxes so that they better reflect environmental externalities including greenhouse gas emissions; and reforming existing, or introducing new, environmental taxes on resource use and pollution (e.g. on water abstraction, wastewater discharges, pesticides, fertilisers and packaging materials). Some countries remarked that fossil fuel subsidies are sometimes regarded as generating positive social externalities and efforts to phasing them out need to take this into account, e.g. by introducing appropriate revenue recycling schemes; alternative policy instruments for social policies are always available.

4. Overcoming barriers for implementing carbon pricing policies by international coordination

Whereas day 1 of the conference focussed on presenting the opportunities carbon pricing policies entail for raising ambition and ways how to strengthen effective carbon rates, day 2 started by addressing existing barriers for implementing carbon pricing policies. Andrew Prag (OECD) identified four main barriers (see also his background paper): concerns over industrial competitiveness; impacts on poorer households; government capacity for implementation; and broader policy misalignments. Specifically, the “carbon entanglement” of governments, i.e. their dependence on fossil fuel revenues in their national budgets, was described as an important problem.

Some countries reported their strategies on how those barriers could be overcome, e.g. by introducing socially just revenue recycling schemes or accounting for carbon leakage, e.g. by including exceptions for certain industries in the respective regulation. It became clear that linking carbon pricing systems could, in theory, solve wide-spread concerns over industrial competitiveness. However, participants stressed that this should not be the only objective of international cooperation, but countries should try to coordinate their carbon pricing policies. Here, measures such as agreeing on principles or the removal of misaligned policies, indirect linking via common offset standards, coordination of design questions (such as, e.g., regarding monitoring, reporting, and verification), or fostering price convergence can be described as increasingly extensive levels of coordination, preparing the way for ever more ambitious options. The CMP agreed that the OECD should further analyse how coordinating carbon pricing policies could be brought forward in detail and how the CMP could have an active role in these efforts.

5. Environmental safeguards for carbon pricing instruments

The last session of the Strategic Dialogue focused on environmental safeguards for carbon pricing instruments. The discussion was framed from a countries’ perspective in order not to duplicate negotiations under the UNFCCC. The input by Nathaniel Keohane (EDF) stated that environmental integrity of cooperative approaches depended on the partners involved, the domestic programs generating emissions reductions and the transaction costs. In support of the discussion, the state of play of the New Zealand Declaration group regarding the elaboration of principles for environmental integrity in international carbon markets was presented.

Countries agreed that environmental safeguards are crucial for the credibility of international cooperation. The core element of environmental integrity is to safeguard the reduction of global emissions. It was highlighted that the CMP can play an important role in building bridges between technical and political issues and spreading political messages to foster the robust and sustainable development of carbon markets internationally. It was agreed that the CMP should continue to foster exchange on this issue.

II. THE WAY AHEAD

Many participants formulated concrete proposals on the strategic role of the CMP: it was highlighted that it should prepare **strategic inputs** to ongoing negotiations and be cognisant of not doubling them, foster an **exchange of experiences among governments**, facilitate the **increase of ambition** with the help of carbon pricing instruments, and offer a forum for “**quality pioneers**” for **carbon pricing**.

Co-Chair 2018: **Canada** announced to host the **3rd Strategic Dialogue of the CMP in 2018**. According to the agreed concept of the CMP, Germany will continue to co-chair for 2018.

Topics for the next CMP meeting: Participants agreed that it would be worthwhile to continue a discussion on i) possible levels of international coordination of carbon pricing policies, ii) environmental safeguards for carbon pricing instruments, iii) the role of carbon pricing in raising ambition, as well as iv) exploring synergies of climate finance and carbon pricing instruments for successful NDC implementation. Both co-chairs for 2018 will investigate other potential topics to ensure a fruitful discussion at the next Strategic Dialogue of the CMP.

Technical support: The **OECD** will continue its support to the CMP in 2018. It was discussed that the OECD should explore how the CMP could prepare an **input to the FD** once the work program will have been announced at COP23. The co-chairs (2017 and 2018) may also consider initiating a working group with interested countries to further elaborate on this issue. Furthermore, the OECD will be asked to work out the details on different **possible levels of international coordination on carbon pricing**. This work should be guided by the question what is needed for building trust among countries and businesses, safeguarding quality and increasing economic advantages of instruments including the mapping of international initiatives which aim at coordinating carbon policy.

Side Event at COP 23: In the German Pavilion the side event “**Coordinating Carbon Pricing Policies**” will take place on 9 November 2017, 10.00-11.30am. The side event will explore different levels of international coordination of carbon pricing policies. Representatives from businesses, NGOs and governments will discuss what level of coordination is needed to facilitate the implementation of carbon pricing policies that are in line with the Paris Agreement. **Carbon Market Platform members are very welcome to contribute to the discussion at the event.**

III. BACKGROUND INFORMATION: THE CARBON MARKET PLATFORM

At the **G7 Summit in Germany in June 2015**, the G7 emphasized that deep cuts in global greenhouse gas emissions are required with a decarbonization of the global economy over the course of this century. Given that effective carbon policies are key climate policy instruments to reduce emissions cost-efficiently and at large scale, while having a broad variety of approaches all around the globe, the G7 leaders decided to establish the **Carbon Market Platform**.

The aim of this political forum is to facilitate a **strategic dialogue** between governmental actors and to allow for new cooperative and common approaches to be developed with the aim of applying effective policies and actions throughout the global economy, including **carbon market-based and regulatory instruments**.

In 2017, the Carbon Market Platform was jointly chaired by Germany and Italy and its Second

Strategic Dialogue, at director general level, was part of a week of meetings on carbon markets in September in Rome hosted by the Italian Ministry of Environment, Land and Sea under the G7 Presidency.

Furthermore, in Bologna in June 2017, the G7 Environment Ministers, High Representatives, and European Commissioners responsible for environment and climate reiterated the important role of carbon pricing in tackling climate change, including market-based approaches, and welcomed the second Strategic Dialogue of the Carbon Market Platform.

IV. LIST OF PARTICIPATING COUNTRIES AND ORGANIZATIONS AT THE 2ND STRATEGIC DIALOGUE

AUSTRALIA
B20/C20/T20
CANADA
CHILE
CPLC (CARBON PRICING LEADERSHIP COALITION)
EDF (ENVIRONMENTAL DEFENSE FUND)
EUROPEAN COMMISSION
FRANCE
GERMANY
ICAP (INTERNATIONAL CARBON ACTION PARTNERSHIP)
IMF (INTERNATIONAL MONETARY FUND)
INDONESIA
ITALY
JAPAN
KORU CLIMATE
NEW ZEALAND
OECD (ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT)
PANAMA
POLAND
SENEGAL
SWITZERLAND
UKRAINE
UNEP (UNITED NATIONS ENVIRONMENT PROGRAMME)
UNFCCC (UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE)
UNITED KINGDOM
VIETNAM
WORLD BANK

2. Presentations from each of the sessions (hyperlinked)

Session 1:

- Carbon Pricing Leadership Coalition : Report of the High-Level Commission on Carbon Prices, Prof. Ottmar Edenhofer – Potsdam Institute for climate impact research
- [Towards Carbon Pricing in the G20](#), Gerrit Hansen - Germanwatch

Session 2:

- Raising ambition through international carbon markets, Andrew Howard - Koru Climate

Session 3:

- [Getting energy prices right](#), Baoping Shang - International Monetary Fund
- [WBG support to countries to develop low-carbon economy](#), Venkata Ramana Putti - World Bank Group
- [Aligning prices and fiscal policy for the SDGs and the Paris Agreement: Fossil fuel subsidies](#), Joy Kim-UNEP
- [Key Messages on Aligning Policies](#), Kurt Van Dender - OECD

Session 4:

- [Designing carbon pricing instruments for ambitious climate policy](#), Andrew Prag - OECD

Session 5:

- [Environmental integrity of cooperative approaches in a “bottom-up” world](#), Nathaniel Keohane - Environmental Defense Fund

3. Meeting Agenda

**Carbon Market Platform Strategic Dialogue 2017
27-28 September 2017**

**Società Geografica Italiana, Palazzetto Mattei in Villa Celimontana, Via della Navicella 12, 00184 Rome
Agenda**

DAY 1

09.00-09.30

Registration & Welcome Coffee

09.30-09.50

Welcoming Remarks and Introduction to the 2nd Strategic Dialogue

(20 mins)

by Co-Chairs

*Francesco La Camera, DG Sustainable Development, EU & International Affairs,
Italian Ministry of Environment, Land and Sea (MATTM)*

*Karsten Sach, DG Climate Policy, European and International Policy, German
Ministry for Environment, Nature Conservation, Building and Nuclear Safety
(BMUB)*

09.50-11.20

Session 1

(90 mins)

Taking Stock of the International Momentum for Carbon Pricing

Chaired by Italy

Presentations by:

- *Carbon Pricing Leadership Coalition (Prof. Ottmar Edenhofer): Report of the High-Level Commission on Carbon Prices*
- *B20/C20/T20 (Gerrit Hansen, Germanwatch): Climate and Energy Working Groups Joint Statement for a Sustainable Energy Transition*
- *European Commission DG CLIMA (Jos Delbeke): Growing role of carbon markets for implementation of Paris Agreement.*

Questions for discussion:

- *How to use the international momentum for carbon pricing in domestic and global pricing approaches?*

11.20-11:35

Coffee break

11.35-13.15

(100 mins)

Session 2

How Can Cooperation Enable Raising Ambition?

Chaired by Germany

Lead presentation

- *Koru (Andrew Howard), followed by Q&A and discussion*

Short remarks

- *Invited countries/organizations: SWI, EU COM, SEN, UK*

Questions for discussion:

- *How can cooperation between countries on carbon markets, carbon pricing, regulatory instruments and other policy measures enable raising ambition?*
- *What are the incentives for progression?*
- *How can the Carbon Market Platform contribute to the Facilitative Dialogue in 2018?*

13.15-14.15

Lunch break

14.15-17.30

(195 mins)

Session 3

Making it Happen: Integrating Carbon Policies by Aligning Economic- Financial Systems with Environmental Goals

Chaired by Italy

Presentations by:

- *IMF (David Coady): Subsidies and taxes dealing with environmental externalities (tbc)*
- *World Bank (Venkata Ramana Putti): MDB contribution to countries to develop a low-carbon economy*
- *UNEP (Joy Kim): Methodologies and definition of SDG 12c (Fossil Fuels Subsidies Indicator)*
- *OECD (Kurt Van Dender and Ron Steenblik): Key messages on aligning policies (EFRs, ETS, CO2 tax, phasing out of FFS)*

Short remarks

- *Invited countries on G20 FFS Peer Review and other approaches to align policies: IDN*

Questions for discussion:

- *What are the domestic carbon pricing instruments used and potentially available?*
- *Are countries examining, monitoring and progressively removing Fossil Fuel Subsidies (ref. SDGs 12c, G7 Summit Ise-Shima 2016, G7 Environment Bologna 2017)?*
- *What is the approach used to align fiscal systems with environmental goals?*

17.30

End of Day 1 - Dinner in Ristorante Consolini (Via Marmorata 28, 00153 Rome)

DAY 2

09.00-09.15

Report of the outcome of the first day

Chaired by Germany

09.15-11.05

Session 4

(110 mins)

Designing Carbon Markets and Pricing Instruments for Ambitious Climate Policy

Chaired by Italy

Lead presentation

- *OECD (Andrew Prag) based on the background paper for the CMP, followed by Q&A and discussion*

Short remarks

- *Invited countries: FRA, IVC*

Questions for discussion:

- *What are the key political constraints to increase the coverage of pricing carbon, and what role for the Carbon Market Platform in overcoming those constraints?*
- *How can countries better co-ordinate on the stringency of their carbon pricing policies (whether price levels or caps) in order to be in line with long-term mitigation goals? Are there ways that the Carbon Market Platform could facilitate this debate?*

11.05-11.25 (20 mins)

Coffee break

11.25-13.15

Session 5

(110 mins)

Exchange on Quality Principles for Safeguards in Cooperative Approaches

Chaired by Germany

Lead presentation

- *Environmental Defense Fund (Nathaniel Keohane), followed by Q&A and discussion*

Short remarks

- *Invited countries: CAN, JPN, NZL, PAN, VTN*

Questions for discussion:

- *Environmental integrity: how to minimize the risk to the environment when cooperating?*
- *Sustainable development: how to ensure the promotion of sustainable development through cooperative approaches?*
- *How can the Carbon Market Platform contribute to achieving a clear and common understanding of essential quality principles for safeguard?*

13.15-14.15

Lunch break

14.15-16.15

Session 6

(120 mins)

Summary of the 2nd Strategic Dialogue Discussions and the Way Forward

Wrap-up by Italy and Germany, followed by comments and discussion

Questions for discussion:

- *What are the key findings of the 2nd Strategic Dialogue?*
- *What issues could be addressed in the next Strategic Dialogue and in future sessions?*

Outlook:

- *3rd Strategic Dialogue in 2018*

16.15

End of Day 2