

Short WORKSHOP REPORT FORM

Number and title of workshop: Getting carbon market governance right from day one

Coordinator: Dr. Gernot Wagner, Environmental Defense Fund

Date and time of workshop: 12 Nov 2010, 17:30

Moderator (Name and Institution): Dr. Gernot Wagner, Environmental Defense Fund

Rapporteur (Name and Institution): Farzana Nawaz, Transparency International Secretariat

Panellists (Name, institution, title)

- Aarthi S. Anand, Climate Change Attorney
- Professor Donald A. Brown, Penn State University, Ethicist
- Dr. Barbara Buchner, The Climate Policy Initiative, Director
- Michael Wara, Stanford Law School, Assistant Professor,

Main Issues Covered

Moderated by Gernot Wagner of the Environmental Defense Fund, this session brought together some of the leading thinkers in the field to discuss governance pitfalls and remedies for an emerging global carbon market.

Barbara Buchner shared experiences and lessons learned from the largest cap and trade mechanism currently in operation, the European Union Emissions Trading System (EU ETS). Dr. Buchner described some of the characteristics that enabled the success of the EU ETS process – it followed a first broad and then deep strategy with continuing efforts to differentiate and come up with more accurate caps. It also has a highly decentralised implementation where the MRV process (Monitoring, Reporting and Verification) is performed and enforced by the member states. The most valuable achievement of the EU ETS is the fact that carbon now has a real price which was refined through 2 periods of trading in a liquid commodity market. The system has benefited from continuous learning and refinement through its many stages and can serve as a model for future global cap and trade regimes.

Panellists Michael Wara and Aarthi Anand then discussed the pros and cons of a particular offset mechanism: the UN Clean Development Mechanism (CDM). Dr. Wara argued that the CDM mechanism illustrates some of the limitations of a regulatory approach. The CDM system places enormous demands on regulators. It is difficult to determine that the emission reductions claimed are in fact real and the system is plagued with scandals. There is a common perception that offsets have not thus far delivered, leading to frustration on the side of both regulators and businesses. All of this has resulted in a falling issuance rate of CERs. Dr. Wara argued that a market-based cap-and-trade approach has many benefits over the current CDM. These include lower costs and ease of implementation. He stressed the need for due process and accountability measures for all stakeholders, including the CDM Executive Board and independent auditors .

Panellist Aarthi Anand also stressed the role of third-party verifiers and the need for transparency as two fundamental areas of improvement in the current CDM mechanism. Ms. Anand offered three main takeaways from the CDM experience so far. First, independent third parties have an enormously important role to play throughout the carbon credit transfer and trading process - in the initial verification stage, in validating project documents, in monitoring projects and in the final verification and certification. Second, there needs to be concrete ways to verify CO2 reductions. Third, standardised legal forms are essential in order to provide the basis for a secure mechanism to participate in carbon trading.

Donald Brown focused on the many ethical implications of mitigation policies in general and market-based system in particular. He stressed the need to look at ethics in carbon markets in the broader context of climate change and to compare the relative scales of ethical implications. He detailed how ethical issues can plague every step of the process, from setting mitigation targets to allocating carbon credits, to implementing projects and measuring and verifying emissions reductions. He urged that special attention should be paid to ensure that revenues of carbon markets ultimately benefit the worst affected by climate change.

The presentations were followed by a lengthy discussion period with participation from the attendants. Most questions focused on ethical considerations within carbon markets. Some other participants pointed out the ethical pitfalls of carbon markets in general and insisted that alternative mechanisms should be considered in conjunction. The need to strengthen the ability of civil society to monitor market mechanisms was also stressed by all participants.

Main Outcomes / Interesting Quotes

“The most important lesson from the EU ETS is that ‘emissions are no longer free’” – Dr. Barbara Buchner

“A market-based cap-and-trade system is superior to what currently exists under the CDM” – Dr. Michael Wara

“Lack of availability and misuse of information by regulators increases uncertainty in carbon markets and chills trading.” – Aarthi Anand

“We might not agree about what ethics require but we can agree about the global injustice caused by climate change.” – Professor Don Brown

Recommendations, Follow-up Actions

The following measures are vital in ensuring the success of an emissions trading mechanism:

- a simple and transparent system
- a good decision process with a central coordinating mechanism
- A robust, binding cap
- Predictability / certainty
- low transaction costs
- good data availability
- varying marginal abatement costs for different actors
- flexibility and linkages to international offsets

- effective monitoring, reporting and verification to ensure integrity of the system

The CDM process should be improved by:

- Due process and accountability for parties who review and comment on projects. Currently there are no obligations on regulators to respond and an objective process needs to be put in place for this.
- Clear standards need to be established for Designated Operational Entities (DOEs), independent auditors accredited by the CDM Executive Board to validate project proposals or verify whether implemented projects have achieved planned greenhouse gas emission reductions.
- Professionalization of the CDM executive board.
- A policy shift is needed in the CDM from a large number of small projects to a small number of large scale projects which would enhance efficiency and effectiveness.
- Availability of standardised legal instruments can help mitigate risks in CDM projects and lower barriers to financing.

The success of all ethical precautions and integrity measures are contingent upon ensuring that the revenues generated from a market-based mechanism are allocated to the people most adversely affected by climate change.

Workshop Highlights (including interesting quotes)

Signed and date submitted

Please submit this workshop report to the workshop assistant after its completion.