Carbon Price Consultations

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Based on

- Morris, A, McKibbin, W. and P. Wilcoxen.(2013) "A Climate Diplomacy Proposal: Carbon Pricing Consultations." Policy Brief, Harvard Project on Climate Agreements, Belfer Center for Science and International Affairs, Harvard Kennedy School

Draws on

– McKibbin W, Morris A, and Wilcoxen P (2011), "Comparing Climate Commitments: A model-based analysis of the Copenhagen Accord", *Climate Change Economics*, Vol 2, No 2 (MMW 2011)
  - Develops a methodology to calculate "carbon price equivalence" of a given policy
  - Similar to "tariff equivalence"
  - Not only useful for comparing commitments but also for designing a carbon price treaty

Draws on

- McKibbin, W., Morris A., and P. Wilcoxen (2009) "A Copenhagen Collar: Achieving Comparable Effort Through Carbon price Agreements" in *Climate Change Policy: Recommendations to Reach Consensus*, The Brookings Institution (MMW2009)
  - Argues for extending the existing approach to climate policy negotiations that includes a dual compliance in terms of both emission targets and carbon prices equivalence caps and floors

The Question

- How to get carbon prices into a formal agreement?

In the short run

- Establish a carbon price consultation (CPC) process.
- a detailed, pragmatic, and ongoing discussion of the implementation details of domestic cap-and-trade and GHG taxes

Benefits

- Addresses a glaring gap in climate talks to date.
  - Negotiations have tackled national emissions targets, global temperature targets, technology transfer, assistance to poor countries for adaptation and mitigation (a.k.a. “finance”), clean energy, forest preservation, compensation for countries affected economically by mitigation measures, and many other topics

A paradigm shift is needed

- Carbon pricing generally seen as a national level policy outside the purview of international talks
- A CPC process would provide an opportunity for negotiators, as well as the administrators of national pricing policies, to discuss how to induce, practically and efficiently, the broad economic shifts required to de-couple emissions and economic activity.

Why a CPC Process?

- 1) need to bring finance and trade ministries in climate negotiations.
  - The perspectives and expertise most familiar with the economics of market-based emissions approaches have been missing in the talks.

Why a CPC Process?

- 2) many countries have recently adopted carbon pricing policies, so there is increasing experience to analyze and discuss

Why a CPC Process?

- 3) some countries that have not yet adopted carbon prices, such as the U.S., have considerable expertise in efficient administration of excise taxes and could provide valuable advice

Why a CPC Process?

- 4) talks to date have focused on emissions targets, both collectively and by country, divorcing the dialogue from the economic realities of achieving those commitments
  - It is one thing to agree on a 2 degree temperature target, it is quite another to agree on policies to achieve it

Why a CPC Process?

- 5) disparate carbon prices across different countries can shift emissions, production, investment, and trade patterns, and mutual understanding of these cross-border effects is of interest to all parties

Goal of CPC

- to build mutual comfort and confidence in carbon pricing
  - share views,
  - prevent disputes and trade disruptions
  - identify and replicate successful approaches
  - learn from one another’s mistakes
  - build institutional capacity, and generally promote mutual cooperation on serious, economically efficient, measures to mitigate emissions.

How to Design?

- focus specifically on administrative, economic, and trade-related aspects of policies that price carbon and other GHGs

Analytical Support

- The CPC could also consider ways to enlist existing institutions for analytical support related to carbon pricing
  - IMF
  - OECD

Where does it fit?

- embed the CPC within the Major Economies Forum, the G-20, or other existing forums as much as feasible
- The defining characteristic of the CPC would be that the finance and trade ministries (not the environment and energy ministries) would take the lead.

Why is it important?

- separate the work of the CPC in the pragmatic details of carbon pricing, from divisive issues such as who bears what responsibility for collective mitigation goals, who should compensate whom for what, and whose approach is more ambitious or moral

Why is it important?

- Subsequent or parallel efforts can review the adequacy of the price signals and seek to increase and/or harmonize them;

Enable a Paradigm Shift

- The CPC dialogue could shape negotiations under the UNFCCC so that countries can supplement their emissions targets with commitments in the form of carbon pricing
- This could allow compliance by either achieving their emissions targets or by demonstrating significant effort through imposing agreed price signals.

Enable a Paradigm Shift

- Price-based commitments would reduce the risk of inadvertent stringency or laxity, help achieve and document compliance, and allow Parties to compare their efforts transparently.

Next Steps

- Should be on the G-20 Agenda in Australia in 2014 but won’t be because of the debacle over carbon pricing created by a badly designed policy in Australia www.sensiblepolicy.com