

Fair and Effective carbon pricing

Preparation of an Emissions Trading System (ETS) in Mexico (SiCEM)

Sam Van den plas
Carbon Market Watch

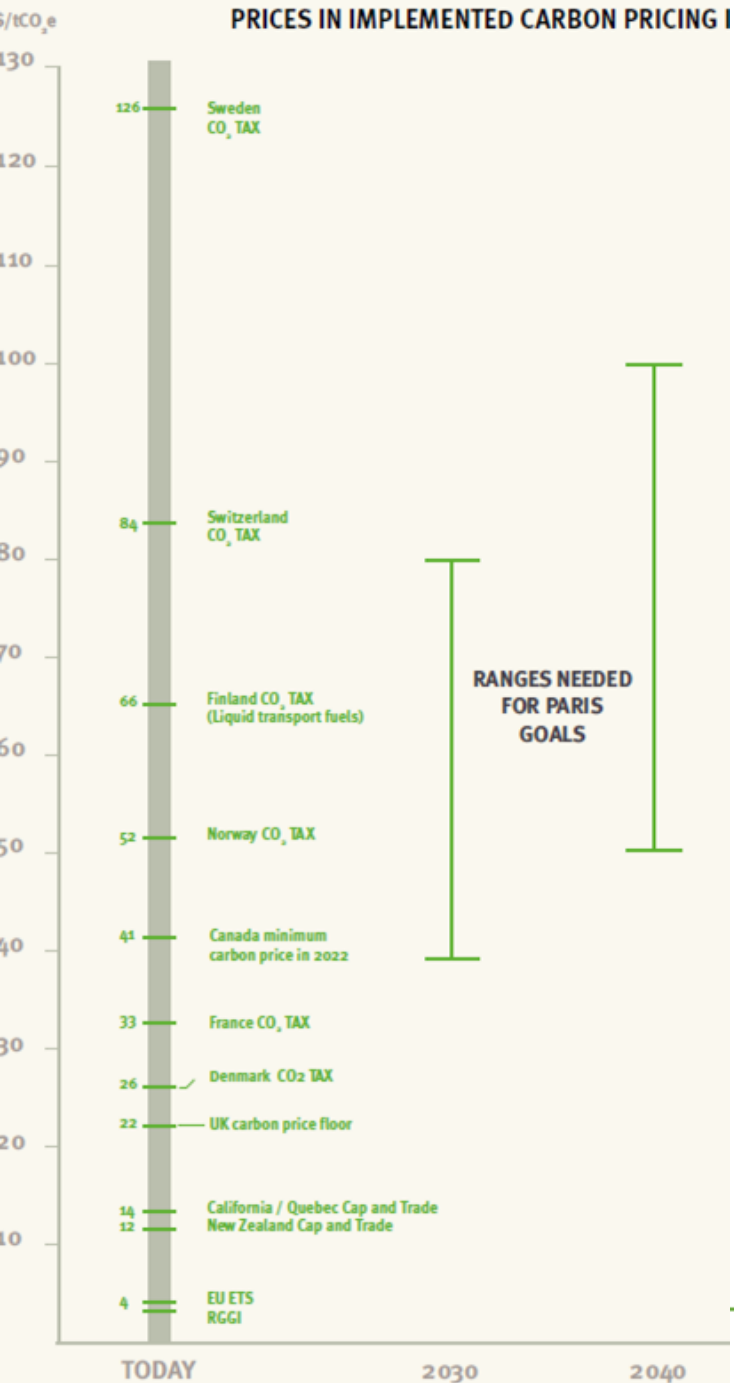
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About Carbon Market Watch

- NGO based in Brussels advocating for fair and effective climate protection
- Track record of climate policy work in international organisations and the European Union
- Evidence-based advocacy to improve climate policies, turning complex issues into comprehensible messages, and helping people understand and influence those policies
- Uncovering loopholes and raising the voice of affected communities in the decision making process
- Organizing capacity building activities (workshops, handbooks) in Europe and most major regions across the globe





Focus area: functioning of carbon markets

Expert focus on carbon markets, carbon pricing and other climate mechanisms:

- At global level: the international carbon market provisions of the Paris Agreement
- International transport: the global offsetting mechanism to address emissions from airlines and shipping
- At local level: the impacts of carbon market measures on communities and human rights
- At EU level: the EU Green Deal and EU Emissions Trading System



Our approach

- Building on in-depth policy expertise – multiplying existing research in the area
- Amplifying the voice of community groups
- Using innovative communication tools

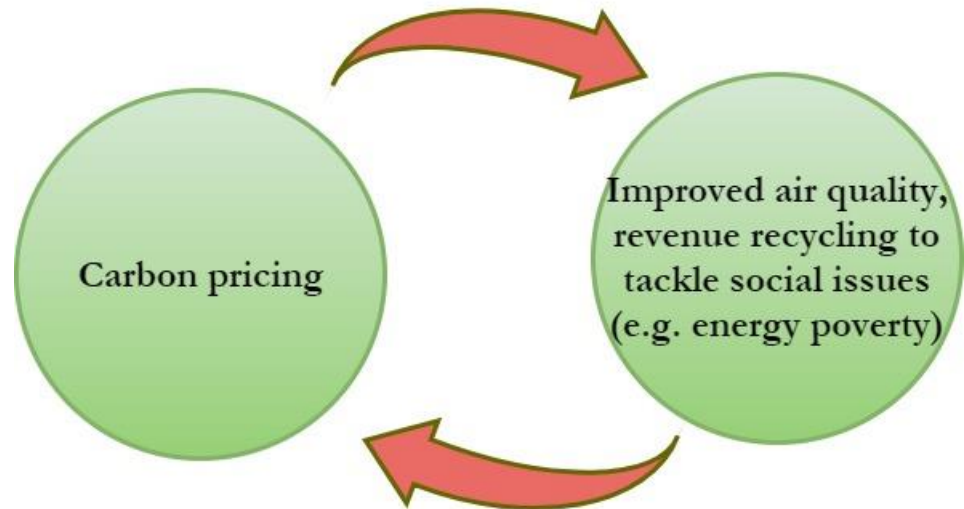


The role of civil society in climate policies

Civil society plays an important role in robust climate policy:

- Helps build social consent and public acceptance
- As counterweight to the interests of opposing industries
- Gives more visibility to co-benefits that ensure climate policies are in a country's own interest
- Allows policymakers to access wider sources of perspectives and potential solutions

Civil society can be instrumental in building public support by putting societal co-benefits at the heart of carbon pricing



CMW positioning on carbon pricing

- Carbon pricing mechanisms are **one of the** important tools to phase out fossil fuels and transition to carbon-free societies, if designed correctly **i.e. without loopholes (free allocation, exemptions), a high enough price and with a cap that declines in line with a 1.5C pathway**
- CMW does not believe in carbon offsetting as a solution to meet the Paris climate goals (**without exemptions**)



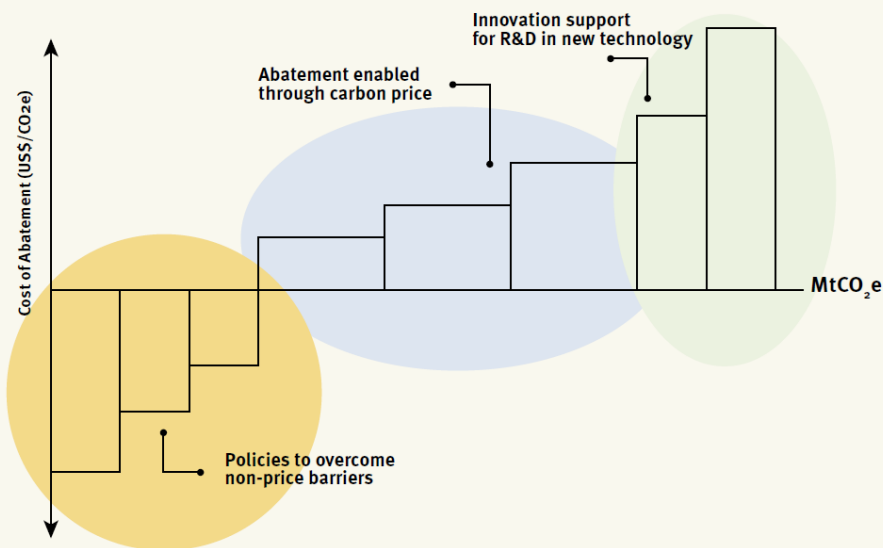
We can design the 'perfect' cap-and-trade system on paper ...



- Ensure the cap reflects a real limit on emissions
- Annually lower the cap to meet the Paris climate goals
- Allocate allowances through auctioning (no free allocation)
- Recycle auctioning revenues to the low-carbon economy
- Put in place safeguards, such as rising carbon floor prices and companion policies, to enhance long-term effectiveness

... but it will never be a silver bullet

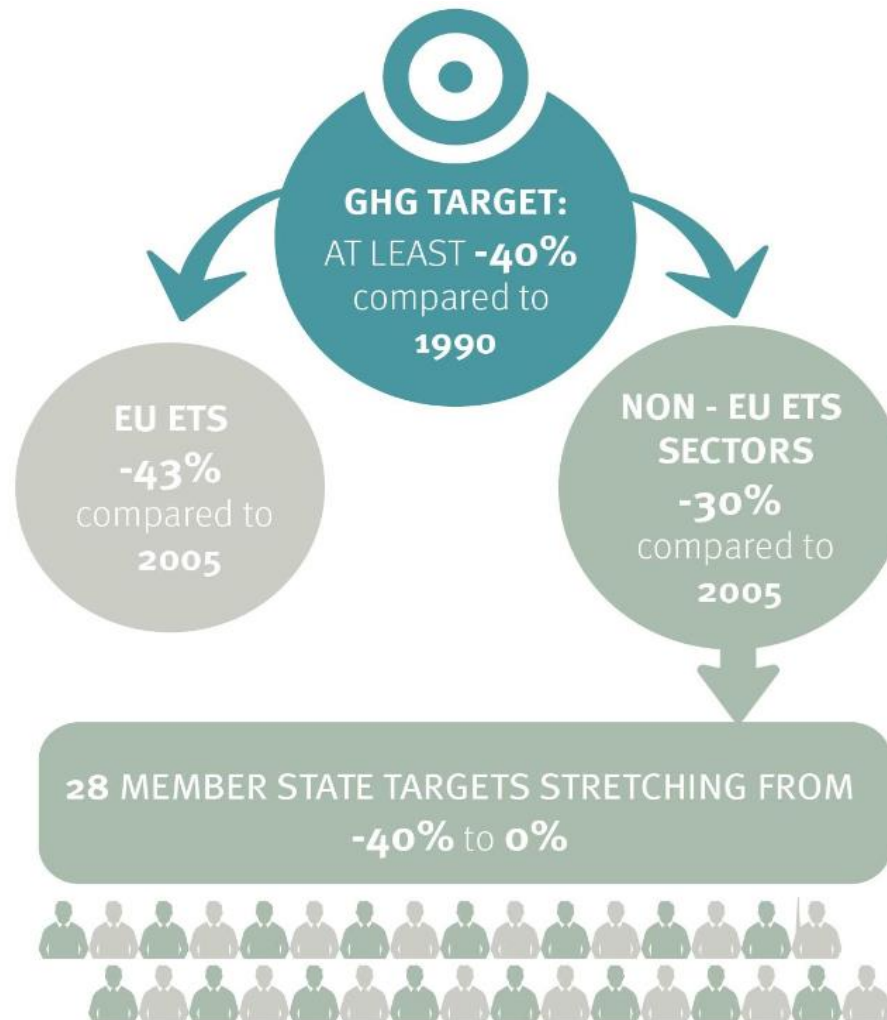
CARBON PRICING AND COMPLEMENTARY MEASURES



Companion policies

→ *Embed emission trading in a wider framework including companion policies to overcome non-price barriers (energy savings) and dynamic inefficiencies (innovation support for renewables)*

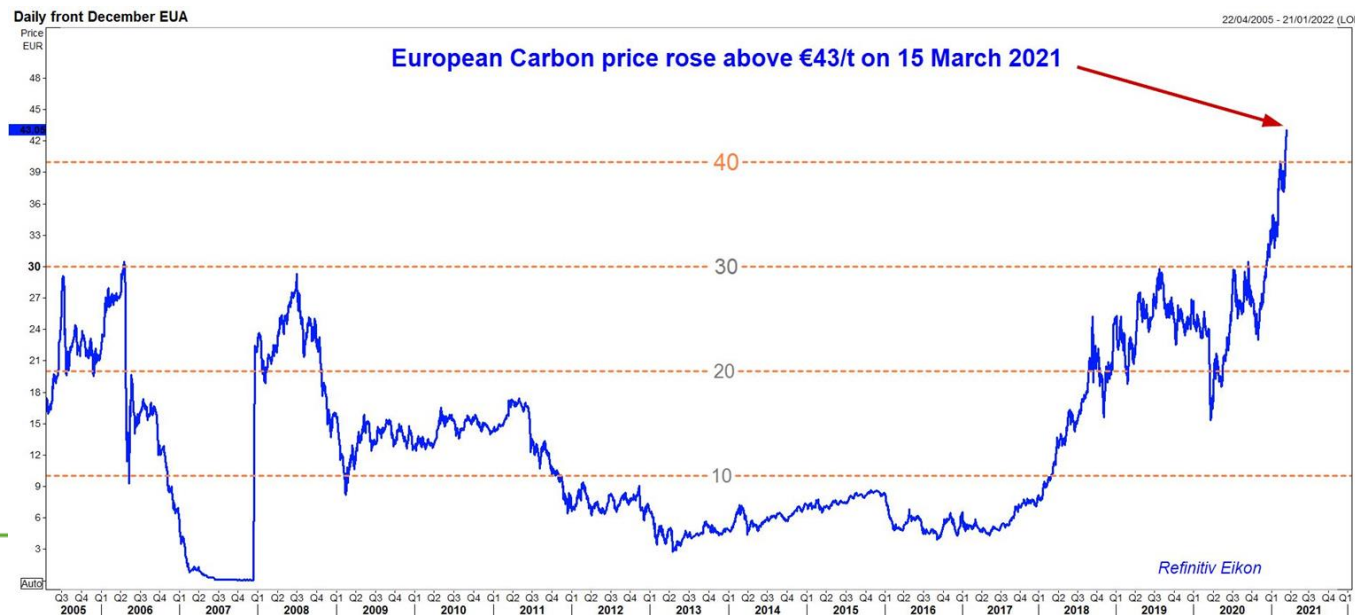
EU climate policies



European Emission Trading System

After over a decade, the EU ETS is still far from functioning properly:

- Cap>emissions
- Trajectory not in line with Paris goals
- Majority of allowances handed out for free
- Low carbon price remains a risk

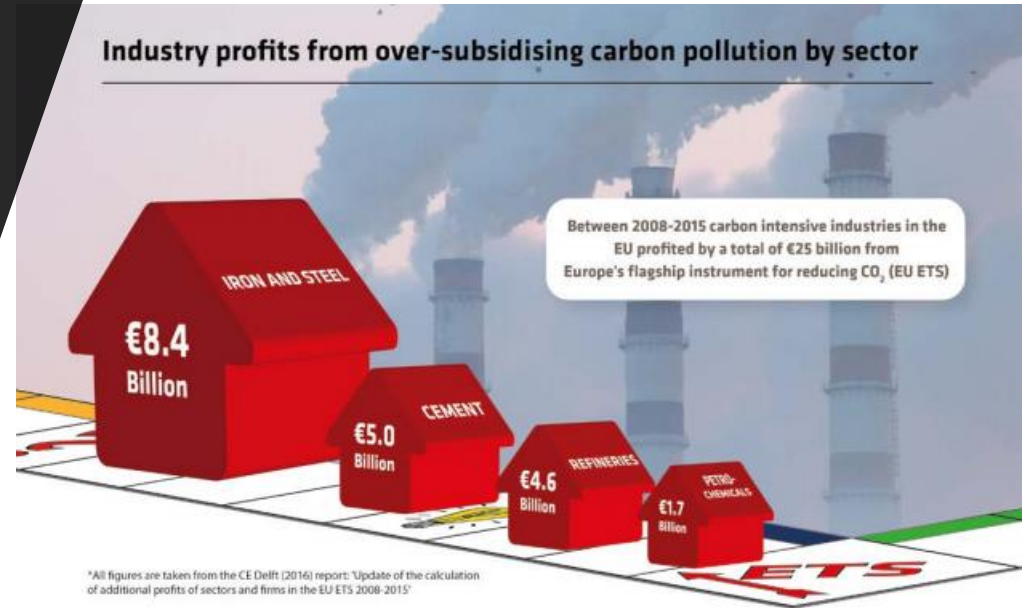


From the polluter-pays to paying the polluter

Example: EU ETS campaign

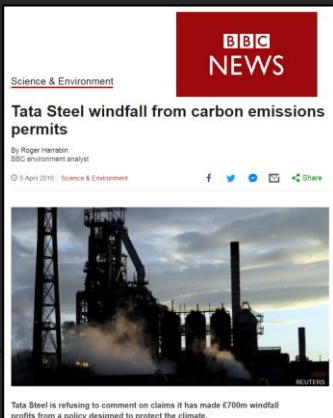
- Building on existing + new research on cost-pass through rates (CE Delft), we started a windfall profit campaign in 2015;
- **Aim:** counter free pollution permits and disproportionate influence of high-emitting industry to ensure a better design of the EU's carbon market;

Industry profits from over-subsidising carbon pollution by sector



*All figures are taken from the CE Delft (2016) report: 'Update of the calculation of additional profits of sectors and firms in the EU ETS 2008-2015'

Sector	Windfall profits from surplus	Windfall profits from offsets	Windfall profits from minimum cost-pass through	Total windfall profits
Iron and Steel	€784 million	€ 239 million	€7,364 million	€8.4 billion
Cement	€2,729 million	€149 million	€2,083 million	€5.0 billion
Refineries	-€67 million	€86 million	€4,562 million	€4.6 billion
Petrochemicals	€774 million	€42 million	€901 million	€1.7 billion



From the polluter-pays to paying the polluter

Approach: fact-checking of industry claims, organizing media actions, engaging with policymakers, developing capacity of national civil society groups, building coalitions with progressive actors to ensure all voices are heard in the decision making process

Example: EU ETS campaign

**IMPLEMENTING THE PARIS AGREEMENT
AND TACKLING CLIMATE CHALLENGES
IN CENTRAL AND EASTERN EUROPE**

SAVE THE DATE:
3/4 NOVEMBER 2016



Stop subsidising pollution
Phase-out free ETS allowances



Looking ahead ...

From EU Green Deal to implementation of the EU's "fit for 55" climate and energy package - challenges:

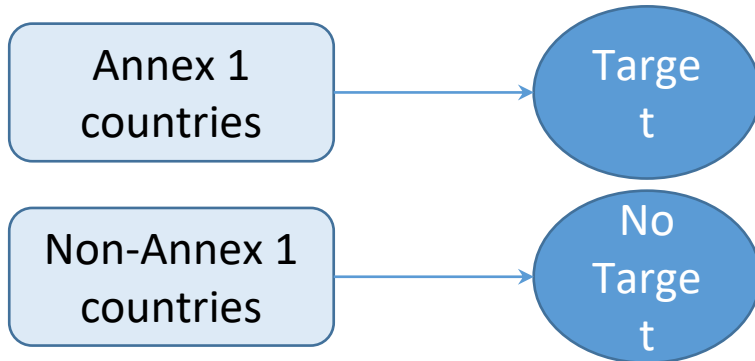
- Lack of industrial emission cuts (steel, cement, chemicals)
- Supporting clean technology investments instead of handing out free pollution permits
- Synergies between carbon pricing and energy policies (i.e. coal phase outs) can be improved



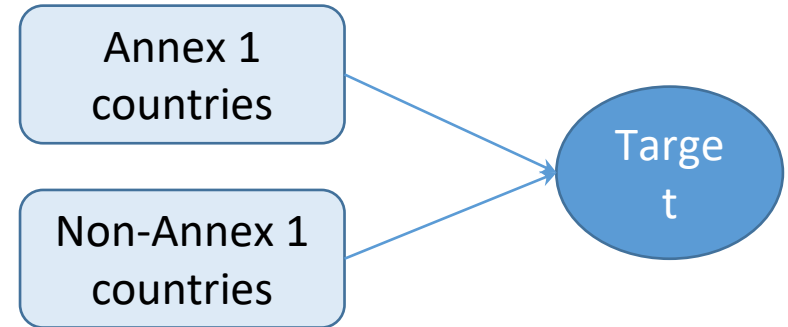


Kyoto Vs. Paris

Kyoto Protocol (end 2020)



Paris Agreement (Start 2020)



Article 6 of the Paris Agreement establishes market mechanisms, to « *allow for higher ambition* » (6.1) and « *deliver an overall mitigation in global emissions* » (6.4)

Lessons from Kyoto mechanisms (CDM/JI)

- Offsetting = zero sum game, at best
- CDM credits with low environmental value increase emissions
- A large majority of projects do not rely on CDM revenues to reduce emissions
- The CDM lacks social and environmental safeguards



The CDM threatens the integrity of the Paris Agreement

Key reasons for ending the CDM:

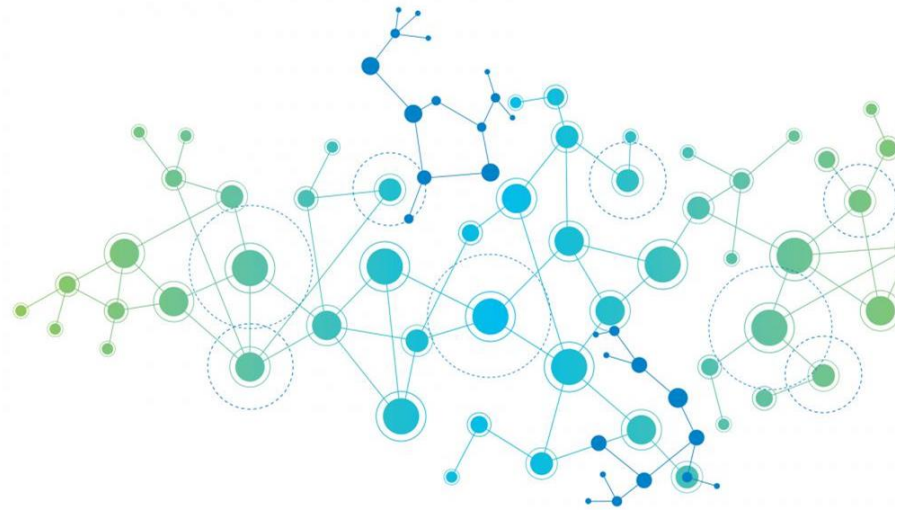
1. The CDM has undermined domestic climate action and led to an increase in emissions (**negative climate impact**)
2. The CDM does not have necessary safeguards in place to prevent and remedy adverse impacts (**negative environmental and social impacts**)



What about linking markets?

Lower costs can enable more climate ambition, and reduce carbon leakage risks:

- Linking should hence go hand-in-hand with deeper emission cuts and the phase-out of free allowances
- Transparency and public participation must be key conditions for linking emission trading systems



Thank you!

[sam.vandenplas@carbonm](mailto:sam.vandenplas@carbonmarketwatch.org)



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