WORKSHOP REPORT

THE STANLEY FOUNDATION | OCTOBER 2015

Carbon Pricing, Technology Investment, and Trade:

Integrating Design Elements for a Low Carbon Club

On July 8, 2015, ICTSD, the Stanley Foundation, Climate Strategies, and IDDRI hosted a workshop on the role of, and interest in developing, low carbon clubs based on the interrelationship of carbon pricing, technology investment, and trade. This summary reflects the organizers' interpretation of ideas expressed during the workshop with the aim of representing key discussion points. It is not intended to represent all the ideas expressed during the workshop, nor does it imply consensus among participants. Workshop participants were from academia, governments, international organizations, and civil society.

The discussions clearly reflected the change currently being observed in international climate governance. While the United Nations Framework Convention on Climate Change (UNFCCC) remains the main UN body dealing with climate change internationally, many different actors are undertaking climate actions—from the private sector to cities and local governments, including growing efforts from the financial sector. Hence, there is increasing recognition by the international policy community of the role of nonstate actors and of the need for immediate action from smaller groups or diverse coalitions or alliances of countries ready to increase their efforts on climate action. This is particularly clear in the ongoing efforts of the French presidency and civil society organizations to focus on action and initiatives during the 21st Conference of the Parties (COP21) of the UNFCCC this December in Paris.

The generally accepted theory of coalitions of the willing signifies potential, yet it is unclear how such coalitions will emphasize complementarity with multilateralism, create efficiency, and accelerate action. The concept of low carbon clubs is receiving increased attention from many experts because of potential actionable benefits. Nonetheless, the workshop discussion showed that participants had related but different views on what constitutes a low carbon club, especially a club that interrelates carbon pricing, technology investment, and trade. Thus the concept of a low carbon club still needs clarification. Yet among the diverse views expressed, participants identified that a key component of such a club is excludable benefits to members, and thus incentives to join the club. There may also need to be a means to prevent free riding, as well as penalties for noncompliance.

To prevent free riding, participants suggested that a club should include benefits for its members from which nonmembers are excluded, which in effect incentivizes actors to meet compliance standards and join the club. Club membership could also be effective at limiting free riding when establishing carbon pricing. Indeed, to be efficient and acceptable to consumers, carbon pricing needs to be articulated with adequate policies and benefits (i.e., innovation, technology, and redistribution), which could be more enticing to implement under a club structure.

As a basic definition, a climate club could consist of a group of countries, regional- or subregional entities, or nonstate actors agreeing on increased policy cooperation and

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The organizers prepared this report following the conference. It contains their interpretation of the proceedings and is not merely a descriptive, chronological account. Participants neither reviewed nor approved the report. Therefore, it should not be assumed that every participant subscribes to all recommendations, observations, and conclusions.

on one or more climate objectives, such as emissions-reduction efforts, renewable energy, or energy-efficiency standards. The club would provide benefits for its member through a combination of efficiencies on increased policy coordination, carbon pricing, and technology and innovation. Entities would therefore have incentives to join, and stay in, the club.

Club approaches could be important when establishing carbon pricing. Clearly, there is increasing support for carbon pricing, including from the private sector, but a global price is not within reach. This is therefore an area where actors could move at multiple speeds.

In the area of technology, there is particular need for innovation in the most polluting sectors. Here, progress between coalitions of the willing could play a meaningful role. Indeed, technologies need to be improved as a complement to carbon pricing; successful climate mitigation depends on progress in those two pillars.

Workshop participants mentioned several useful examples of agreements or initiatives that could be seen as clubs, although there was not full agreement if these examples would define a club. Emissions trading schemes were cited as one such option. These could be used to combine carbon pricing with incentives for innovation, technology development, and transfer, where revenues from the carbon price could be invested in innovation.

There were also discussions on the compatibility of such climate clubs with the multilateral systems, as it was recognized that the clubs should be seen as complementary to multilateralism rather than alternatives. As for the World Trade Organization system, it was argued that it is indeed equipped to support plurilateral action, and provide space for measures taken based on environmental concerns, as long as they are carefully designed.There is, however, room for improvements to make the trade system proactive rather than reactive. The UNFCCC also contains an article supporting plurilateral action, article 7.2.C. It was again argued that one or more lines of text in the COP21 outcome to link the future design of clubs to the Paris agreement would, however, be desirable as a complement.

Overall, the workshop produced many complex questions that require more discussion and that are seen as the seeds from which future dialogue will grow. For example, what would be the link between a club and international processes like the UNFCCC negotiations? What options are available for subnational markets to still participate in a club that includes international trade agreements? How would one start designing such a club? What actors are in a position to anchor such a club? There were additional questions, but the discussion clearly showed the need for and interest in new forms of international cooperation to accelerate climate action through a price on carbon that also limits free riding

There was a strong consensus that complementary to international agreements, these new cooperative mechanisms will be increasingly important in the future climate regime to ratchet up ambition. This workshop was in support of the global dialogue ahead of COP21, and it aims to foster future dialogue on the post-Paris discussion on implementation and acceleration of cooperative climate initiatives. The next step is to continue the discussions on low carbon clubs at the nexus of pricing, technology investment, and trade in order to find answers to these questions so that a club, if feasible, will come to fruition before unilateral carbon-pricing policies limit cooperative opportunities.

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