



SE Asia Cooperation on Carbon Markets

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Roundtable on
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Overview

- Carbon trading in Asia needs to be seen in the context of what is happening.
- Paris Agreement includes Article 6 which addresses international cooperation towards NDCs.
- Given the provisions of the Paris Agreement, where all Parties have put forward NDCs, international cooperation and carbon trading becomes increasingly important.
- South-South cooperation is increasingly important in the overall context of carbon pricing.
- Carbon trading can
 - Contribute to NDC implementation directly
 - Allow for increased level of ambition
 - Given the climate change objective in general and mainstreaming, facilitate cooperation in other areas

Overview

- The important contribution of markets is in a number of areas
 - Setting a price for carbon
 - Making rational economic decisions
 - Increasing economic efficiency of decarbonization and free resources for other priorities
 - Recognizing and addressing issues of competitiveness
 - Interacting with international trade law
 - Contributing to technology transfer and diffusion
 - Allowing to raise the level of ambition to reduce GHG/CO₂

International Carbon Markets

- Carbon markets 1.0 under the KP was characterized by:
 - Centralized governance
 - CERs were a commodity issued by UNFCCC
 - Investment in Asia from Annex 1 countries for CDM projects, no KP commitments from Asia except Japan
 - Totally dependent on EU and Japan for demand – price takers
 - Some contribution to
 - Technology transfer
 - Capacity building
 - Awareness of climate change
 - Awareness of carbon pricing

International Carbon Markets

- Carbon markets 2.0 is emerging under the PA, characterized by
 - Decentralized governance
 - UNFCCC as well as national commodities
 - Expected to facilitate and enhance South-South and regional cooperation
- Different models are emerging for international carbon markets
 - Regional focus
 - Economic and trading links playing an important role
 - Increasing focus on technology and other types of trans-boundary cooperation to meet NDCs

International Carbon Markets

- Regional hubs
- Linking - Alliances: Quebec/California
- Regional alliances
 - Pacific Alliance
 - East Africa Alliance
 - West Africa Alliance

Carbon Markets in SE Asia

- Regional cooperation can be expected to play an important role and will be able to contribute from the point of view of:
 - Market functioning
 - Environments
 - Economical
 - Strategic contribution
- Contributions will be in the areas of:
 - A better functioning market
 - Better monetization of local assets
 - Better integration in global carbon markets and pricing
 - Contribution to the pillars of regional cooperation and integration, especially on Trade and Investment, Regional Public Goods, and Technology Transfer and Diffusion

Carbon markets in SE Asia

- Market Functioning
 - From a market perspective regional cooperation will ensure that there is better liquidity and price discovery
 - Most countries will not have enough liquidity
 - Will increase efficiency and reduce volatility
 - Large markets such as the EU have suffered from cyclical imbalances leading to lack of long-term price predictability for investment
- Environmental benefits
 - Energy and deforestation are an important source of emissions
 - Carbon trading increases efficiency of decarbonization and can help with increasing levels of ambition
 - This results in lower GHG emissions but also in lowering other types of emissions. This will result in an increase benefits from regional public goods including air quality from lower power plant emissions and reduced deforestation, including lower forest fires.

Carbon Markets in SE Asia

- Environmental benefits (cont'd)
 - Increased cooperation on the use of major waterways, such as the Mekong River are another co-benefit that may emerge national and regional carbon markets
- Economic benefits
 - Increased efficiency of decarbonization
 - Better use of regional resources.
 - Increase in investment in Asia for carbon related assets. Redirect international carbon flows in areas that they may not traditionally have gone
 - Help facilitate economic integration.
 - Help avoid carbon leakage and competitive concerns.
 - Technology transfer and diffusion

Carbon Markets in SE Asia – challenges ahead

- Capacity to develop and operate markets
- Infrastructure
- Carbon pricing will make industries less competitive unless applied by trade partners
- Ability to put in place measures to manage the socio-economic impact of carbon pricing – EU CBAM a case in point
- Capacity to understand a multitude of new carbon trading/pricing schemes emerging
- Market not deep and liquid enough to operate independently
- Reluctance to trade until impact of NDCs is well understood
- Clarity emerging from the PA rules & progress
- Not being left outside emerging “carbon clubs” which may have trade implications



Thank you!

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