SPURRING CARBON PRICING THROUGH PUBLIC-PRIVATE DIALOGUE

Dan Barry and Pierre Guigon outline how the public and private sectors are working together to help get the next wave of carbon pricing systems off the ground

New carbon pricing systems are being developed and implemented around the world to help reduce GHG emissions and provide long-term signals to incentivise investment in clean energy and sustainable development. At present, about 40 national and over 20 sub-national jurisdictions – representing almost a quarter of global GHG emissions – are implementing explicit carbon pricing policies. Since 2012, the number of implemented or scheduled carbon pricing instruments has almost doubled, from 20 to 38. Although this momentum is encouraging, both governments and businesses face challenges that should not to be underestimated.

Many countries have expressed the need to strengthen technical capacity and knowledge, particularly in the area of economic modelling, to determine their low-carbon development pathways and identify effective and cost-efficient climate mitigation policies, including carbon pricing instruments. Capacity-building would allow them to better understand the potential implications of new policies on their countries' development objectives. Also, the development and implementation of carbon pricing instruments present technical challenges, which underlines the importance of establishing strong institutional and regulatory 'readiness' for carbon pricing.

Companies that are subject to new climate regulations in different jurisdictions face similar challenges. To ensure their ability to operate effectively in a carbon-constrained world, where GHG emissions are priced, corporate leaders in an increasing number of national and multi-national corporations are taking or considering action to monitor, report and verify GHG emissions, identify risks and opportunities related to new regulation, and build technical capacity early on.[1] Those companies that take early action, will become the corporate climate champions in the years to come.

AT A GLANCE: PMR AND B-PMR

PMR
- Global partnership of 30+ countries
- Supports countries' readiness, piloting, and implementation of carbon pricing instruments
- Platform for collective innovation, discussions and dissemination
- 18 country programmes
- 13 donors contribute $127 million

B-PMR
- Global partnership of business, building on IETA's 150 leading companies active in carbon markets worldwide
- Supports companies' readiness through business-to-business engagement
- Forum for robust dialogue with local industry stakeholders
- Six missions in countries that are preparing emissions trading programmes

For climate change policies to fully permeate a company, climate champions are needed at all levels, to inform on climate-related risks and opportunities, and to establish a credible and robust GHG emission reduction policy. Experience also shows that companies benefit from setting up structures to monitor, report and verify GHG emissions early on, as this helps establish an emissions baseline and identify both risks and opportunities in advance of climate policies being fully enacted.

Several methods of identifying risks and opportunities related to new regulation exist. For example, companies may find value in performing SWOT analysis to identify strengths, weaknesses, opportunities and threats related to their products under a carbon-constrained world, and to understand if their business model requires adjustments. Using an internal carbon price, or shadow price, can also help companies identify risks and opportunities, such as revealing the value of greater energy efficiency in project design or to ensure the economics of their investments are able to withstand potential policy scenarios in the future.

Finally, in order to build carbon pricing capacity early on, businesses can learn how to buy and trade carbon assets and minimise their exposure to market-related risks including price fluctuations and liquidity. To do so, some companies have created emissions trading simulations during the policy preparation phase, to test the implications of various policy design features, and share feedback on possible impacts on the market with policy-makers.

Well-designed and inclusive stakeholder consultations are critical to create an environment of predictability, consistency and flexibility, to allow companies to plan with

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confidence. While policy-makers are often required to inform industry of new plans well in advance, early participation from companies can also help. For example, when governments design a policy, setting up reporting requirements in advance of mandatory regulations and starting with voluntary systems can help build emissions data inventories and companies to gain experience. For policy-makers, collaboration with businesses and key stakeholders can help, for example to improve understanding of the implications of and options to address the impacts on competitiveness of carbon pricing regulation, build consensus on policy design and reduce the risk of future discord.

PMR-BPMR PARTNERSHIP:

THE ANSWER TO EFFECTIVE CARBON PRICING IMPLEMENTATION

The World Bank Group's Partnership for Market Readiness (PMR)[2] was created to help countries assess carbon pricing policy choices and prepare for future implementation of related instruments, by focusing on improving technical and institutional "readiness."

IETA's Business Partnership for Market Readiness (B-PMR) initiative was created in an effort to help corporate leaders understand the challenges and build "readiness" related to compliance with new carbon pricing regulation. To do so, the B-PMR has been conducting a number of in-country missions with the objective of raising the level of awareness and increasing the level of knowledge with regards to carbon pricing through industry-to-industry exchanges, focusing in particular on the practicalities of emissions markets.[3]

THOSE COMPANIES THAT TAKE EARLY ACTION WILL BECOME THE CORPORATE CLIMATE CHAMPIONS IN THE YEARS TO COME

In order for emerging carbon pricing systems to be politically and operationally viable, efforts by governments and business cannot take place in isolation. As a way to facilitate public-private interaction on carbon pricing and lessons learned, the PMR and B-PMR established a long-term and systematic collaboration.

Since 2013, a number of international workshops and meetings have been organised jointly to bring together policy-makers and representatives from the private sector around the world. In March 2015, for example, the PMR and B-PMR organised a workshop in London to discuss effective ways for the private sector to engage in the policy-making process. During this event, the dialogue focused on conditions needed for effective trading in carbon markets. As part of this workshop, policy-makers from PMR countries also visited various trading houses to experience first-hand how carbon markets operate, with an interactive demonstration from different trading desks.

In January 2015, the PMR and B-PMR will hold a joint workshop in Beijing, China, which will bring together international companies and China's leading state-owned enterprises (SOEs) to discuss best practices for industry engagement and readiness on emissions trading. International businesses will travel to China to meet with the country's leading companies, and national experts will share their lessons learned from participating in the EU ETS, California's cap-and-trade programme and Kyoto Protocol flexibility mechanisms. The objective of the workshop is to help Chinese SOEs prepare for their upcoming national ETS.

The participants will hold discussions on carbon pricing and emissions trading best practices, including on industry readiness, how to improve Chinese industry's understanding of the role and function of ETSs. The mission will also tackle knowledge transfer, to enhance the ability of Chinese industry to participate in China's ETS, as well as policy preparation, to assist the Chinese authorities to engage SOEs in technical stakeholder consultations on emissions trading.

As a number of PMR country programmes are now gearing up to implement new and innovative carbon pricing instruments, the PMR/B-PMR collaboration is becoming all the more relevant. The World Bank Group and IETA will continue to explore cooperation between these two initiatives to enhance support to government and businesses in preparing for carbon pricing.

Pierre Guigon *works in the Climate and Carbon Finance Unit at the World Bank. Since he joined the World Bank in 2013, Pierre has been focusing on providing technical assistance to developing countries in the area of climate policies – in particular with the PMR Programme. He previously worked in environmental finance for NYSE Euronext Group, and France's state-owned bank Caisse des Dépôts et Consignations.*

Dan Barry *is Head of Global Environmental Products (GEP) at BP. The GEP team manages exposure to environmental commodities worldwide for both the BP group and third-party customers. Previously Dan was Director of Clean Energy at Gazprom Marketing and Trading and currently serves as Vice-Chairman of IETAs B-PMR.*

(1) For more information, please see: Partnership for Market Readiness. 2015. Preparing for Carbon Pricing: Case Studies from Company Experience--Royal Dutch Shell, Rio Tinto, and Pacific Gas and Electric Company. World Bank, Washington, DC. (2) PMR Participants include: Brazil, Chile, China, Colombia, Costa Rica, India, Indonesia, Jordan, Mexico, Morocco, Peru, South Africa, Thailand, Turkey, Tunisia, Ukraine, Vietnam, Kazakhstan, Australia, Denmark, the European Commission, Finland, Germany, Japan, the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom, the United States, California and Quebec. For more information about the PMR and its participants, please visit www.thepmr.org. (3) For more information about the B-PMR and its activities, please visit: www.ieta.org/b-pmr