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Putting A Price on Carbon: From Lima to Paris 2015

By Goh Tian and Jonatan A. Lassa

Synopsis

The 20th session of the UNFCCC Conference of Parties in Lima now underway until 12 December 2014 will discuss how to put a price on carbon. The question is how can a carbon price bring us closer to our emission targets?

Commentary

THE 20th SESSION of the United Nations Climate Change Conference (UNFCCC COP20) is underway in Lima. Parties will continue discussions on their Intended Nationally Determined Contributions (INDCs) under the Ad Hoc Working Group of the Durban Platform for Enhanced Action (ADP) in preparation for the post-2020 agreement in Paris next year.

Optimism in the global climate change agreement post-Kyoto rose again before the COP20 when China and the United States reached what has been hailed as a “historic” climate deal. Despite the non-binding nature of the deal, China has made great strides with its pledge for national emissions to peak by 2030 while the US agreed to cut emissions by 26-28% below 2005 levels by 2025. In addition, the European Union has likewise reached an internal deal to cut emissions by 40% compared to 1990 levels by 2030. These are positive signs that countries are acknowledging the urgency to mitigate climate change and address carbon emissions before it is too late.

Can we reach these targets?

The recent United Nations Environment Programme’s Emission Gap Report says that carbon emissions should hit net zero between 2055 and 2070 for the world to stay within the 2°C target - beyond which there will be dangerous changes to the global climate. Some have argued that concrete actions will only take place when we put a price on carbon. A carbon price is a monetary value attached to a tonne of carbon dioxide that is emitted into the atmosphere. Placing a price on carbon emissions will increase the costs associated with the use of fossil fuels, thus encouraging industries to switch to cleaner fuels and adopt energy efficient practices.

At COP17 in Durban in 2011, Parties agreed to define a New Market Mechanism (NMM), an

international framework to put a price on carbon to help countries achieve their targets in the post-2020 world.

However, the collapse of the price of Clean Development Mechanism (CDM) credits - a carbon pricing and crediting instrument under the Kyoto Protocol - raises the question of whether carbon markets are the solution to our environmental woes. The price of a CDM credit, a unit of carbon, is determined by two factors: first, the supply of carbon credits from emission reduction projects in developing countries; second, the demand for these credits from developed country parties which have to meet binding emission reduction targets under the Kyoto Protocol.

Carbon credits can be used to offset emission reductions that countries are unable to achieve. It has been argued very often that the lack of participation of major emitters was the Achilles heel of the CDM credit market.

With the participation of major emitters, especially the US and China, in the 2015 agreement and the pledging of INDCs by all Parties, will an international carbon market founder again? The answer is clear that without the US' participation, the next climate deal is likely to collapse once again.

Put a price on carbon

With emission targets, an international system can be set up to allow for the trading of carbon credits. However, a global price on carbon adds a price tag on development. Countries which are able to buy credits can continue with their emission trajectories by purchasing offsets while countries without sufficient resources may default on their INDCs.

The CDM scenario could play out again. An international carbon trading system will also be plagued by issues like proper accounting and environmental integrity of credits.

Furthermore, Parties have yet to determine the form and scope of INDCs. If INDCs are determined with respect to a baseline scenario such as a 'business-as-usual' emission trajectory, net emissions will continue to increase. Yet if INDCs are determined based on historical emissions, the issue of common but differentiated responsibilities resurfaces. Developed countries will have a higher baseline as they have passed the stage of industrialisation; developing countries, however, will have to grapple with an unrealistic emission target which is based on their current state of development.

The question is whether it is fair to have a single global carbon price for both developed and developing countries.

Governments need to put a price on carbon

The spectre of the collapse of the Kyoto Protocol may cause Parties to have less ambitious targets. However, it is time for ambitious but achievable contributions for the world to move towards the 2⁰C target together. INDCs should require difficult and concrete shifts to clean energy production and consumption; but it should not place a burden that is so great on a country that it jeopardises development, lest the country defaults on its promise.

It is imperative that parties should consider the impacts of climate change on their economies and societies instead of merely the economic cost of carbon that their countries will have to bear when crafting their INDCs. Carbon pricing should be seen as a mechanism for governments to achieve these targets within their countries.

This gives governments greater autonomy to create policies to meet their emission targets without having to rely on an international system which could place an unrealistic price on carbon. Wrongful price signals could push industries to deviate from emission reductions.

Countries should not be overly hopeful that a price on carbon will bring us closer to our target; only genuine commitments will. At the end of the day, Parties need to recognise that a watered down agreement in Paris can reduce their commitments to the international efforts to tackle climate change, but it does not reduce their national commitments to providing development and security to their citizens.

In the global commons, the actions of one will have far-reaching impacts for all.

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