



Carbon Market Platform 2<sup>nd</sup> Strategic Dialogue  
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# DESIGNING CARBON PRICING INSTRUMENTS FOR AMBITIOUS CLIMATE POLICY

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# Overview

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- Carbon pricing and climate ambition: a broader view
- Constraints on carbon pricing and strategies for overcoming them
  - Specific to carbon pricing design
  - Broader political constraints
- Levels of international co-operation on carbon pricing



# Carbon pricing and climate ambition: a broader view

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- Carbon pricing as a tool to support transformational change (beyond marginal abatement)
- Can carbon pricing be implemented in a way that improves political conditions, therefore allowing for more of itself ?
  - Good policy design (including exemptions / freebies)
  - Effectively communicating benefits of pricing
  - Removing policy misalignments
  - Constructive international collaboration
- Separate discussion to ambition of NDCs, rules on cooperative approaches, environmental integrity



## Benefits of carbon pricing are clear and well known...

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- Efficient, cost-effective and business-friendly way to integrate the core externality
- Raises revenue for governments
- Ultimately comprehensive but can be eased in gradually
- Provides benefits to other local and regional objectives such as improving air quality

**... So if carbon pricing is so great why have we not got more of it?**



# Barriers and political constraints to carbon pricing

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Competitiveness

Concerns for economic growth, jobs and industrial competitiveness

Households

Carbon  
Entanglement

Misalignments

Government  
Capacity



# Combining growth and climate policies makes economic sense





# Barriers and political constraints to carbon pricing

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## Competitiveness

Concerns for economic growth, jobs and industrial competitiveness

## Households

Concerns about energy bills for households and consumers

## Carbon Entanglement

Government and financial system dependence on fossil fuel revenue

## Misalignments

Broader policy misalignments counteracting carbon prices

## Government Capacity

Limited government capacity for inter-ministry implementation



# Barriers and political constraints to carbon pricing

Competitiveness

Households

Carbon  
Entanglement

Misalignments

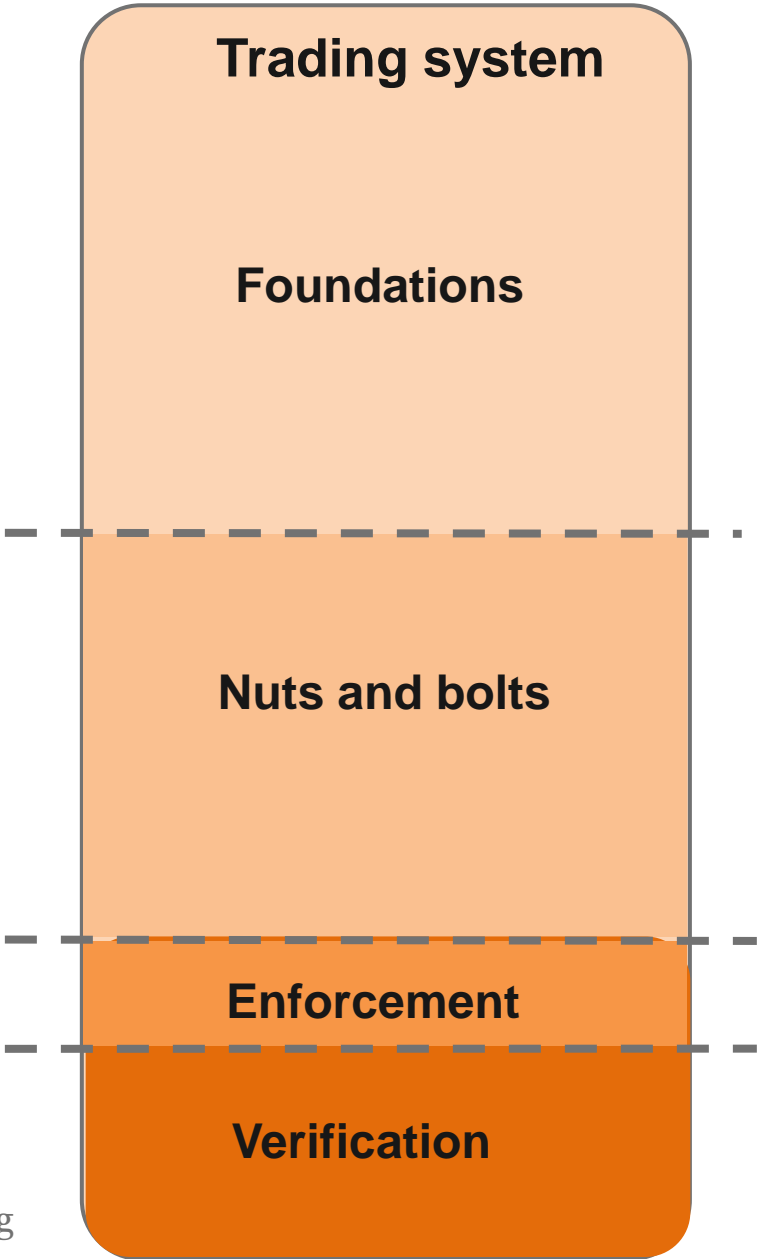
Government  
Capacity

Barriers specific to carbon pricing design

Barriers related to broader policy and governance

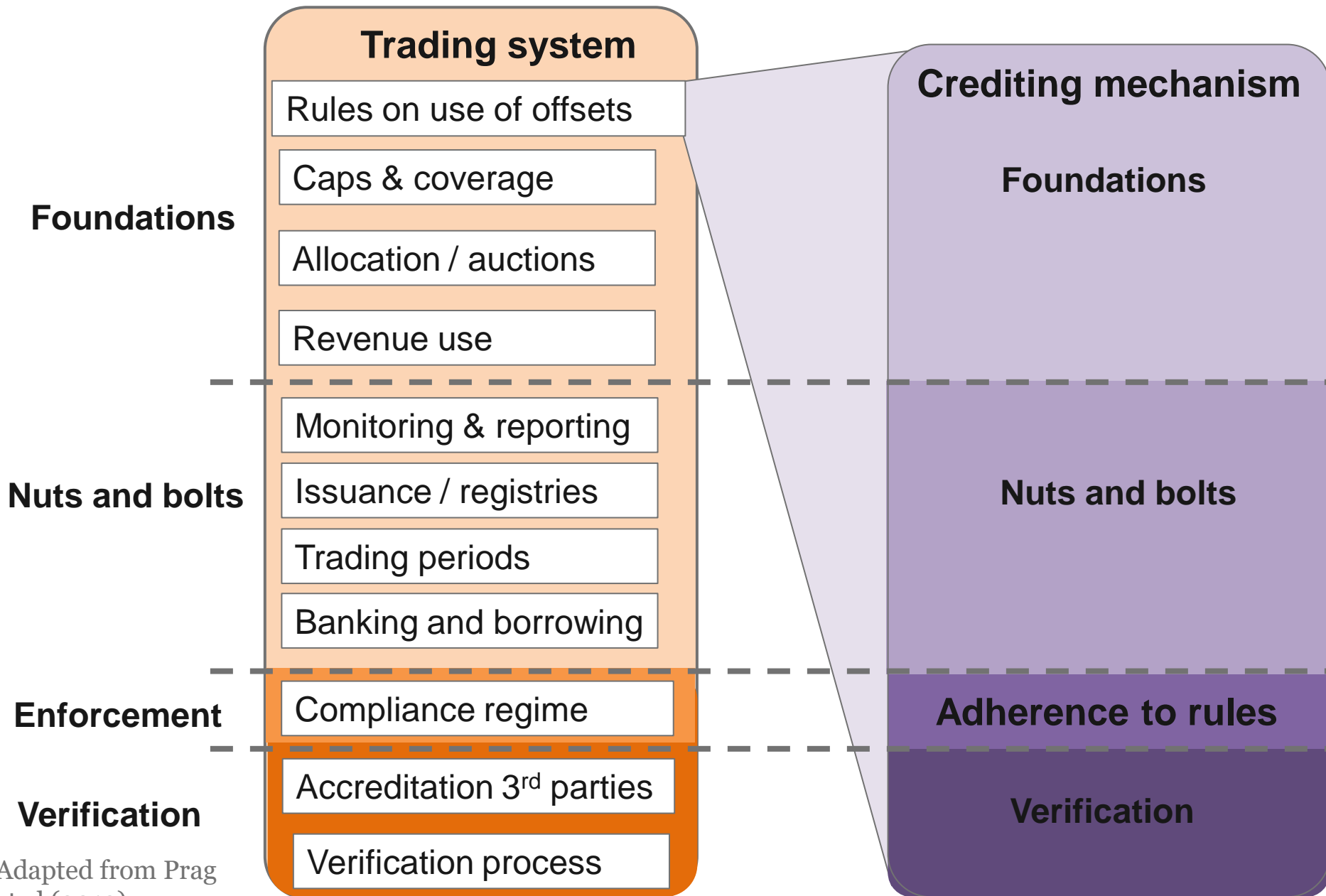


# Design elements of market mechanisms



Adapted from Prag et al (2012)

# Design elements of market mechanisms





# Strategies for overcoming those barriers

## Competitiveness

- International price convergence
- Design foundations for gradual ramp-up
- Transparent and limited free allocation

## Households

- Targeted tax exemptions
- Revenue recycling to affected households
- Complementary energy efficiency policies

## Carbon Entanglement

- Diversifying public revenue sources
- Better financial valuation of climate risk
- Market creation through public procurement

## Misalignments

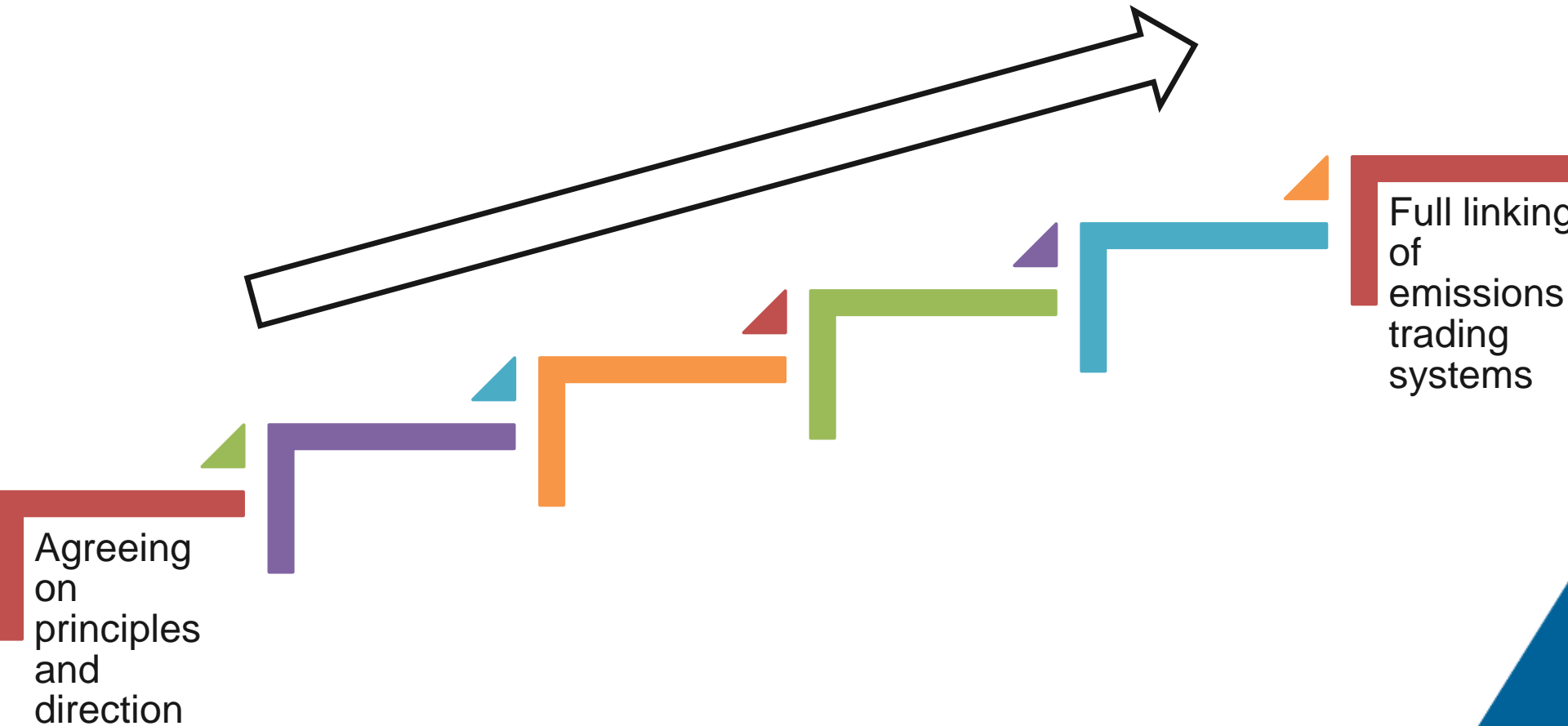
- Realigning fiscal incentives
- Fossil fuel subsidies
- Electricity markets, many others

## Government Capacity

- Best practice sharing
- Technical assistance
- International revenue use

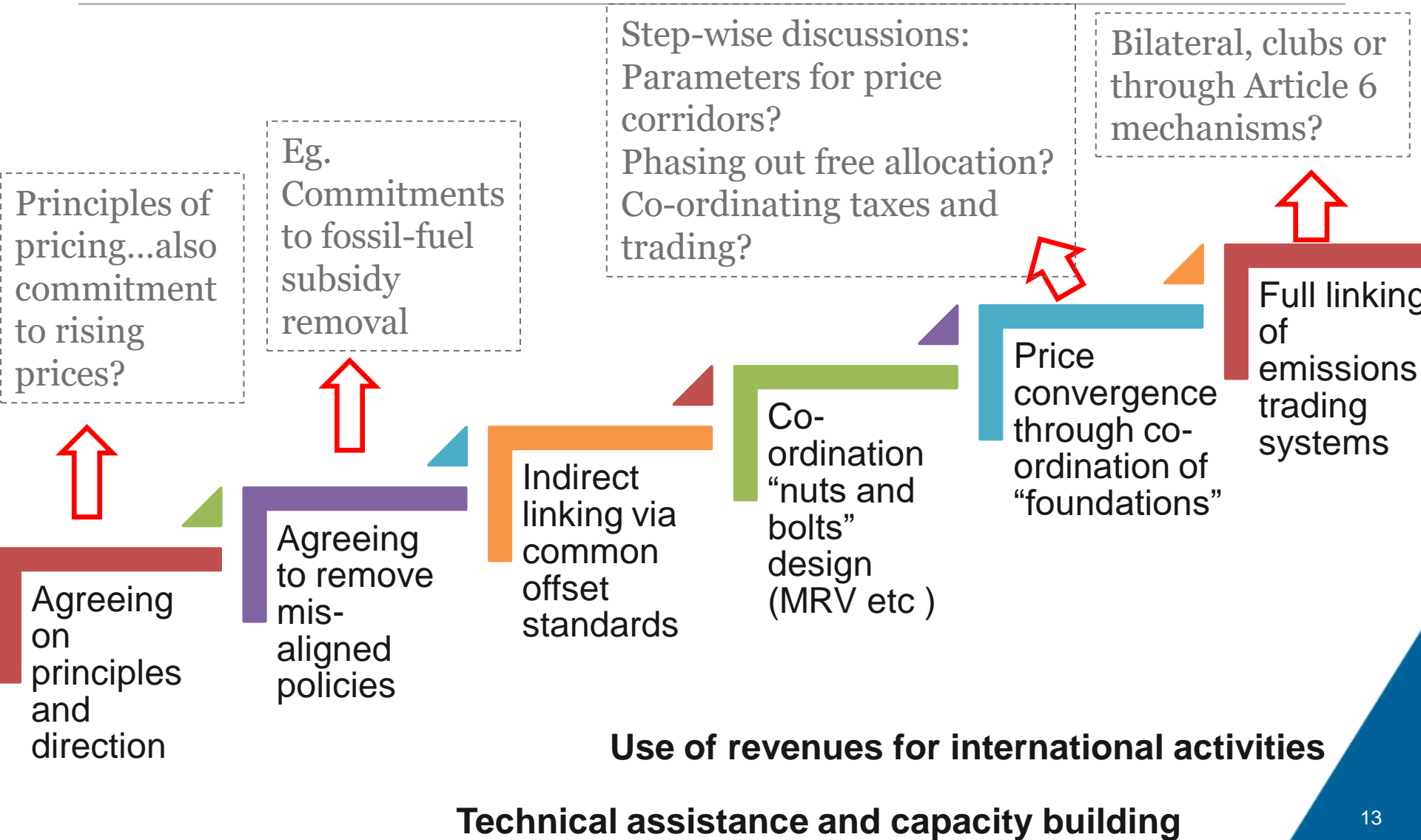


# Levels of international co-operation on carbon pricing





# Levels of international co-operation on carbon pricing





## Questions for discussion

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- What role for the Carbon Market Platform in helping to overcome political constraints?
- Which carbon pricing designs are most effective in raising ambition in which country circumstances?
- How can the Carbon Market Platform facilitate better coordination on carbon pricing policies?



# THANK YOU

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