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Docking Stations

Welcoming nations into greenhouse gas cap-and-trade markets

"Different actions by countries with different circumstances will need different docking stations of supports."

– Yvo de Boer, Executive Secretary, UNFCCC

Climate change requires swift action by many nations to limit and reduce greenhouse gas emissions. Carbon markets offer powerful mechanisms for financing the transition to low-carbon economic growth. To help nations, especially developing countries and emerging economies, make this transition as rapid as possible, in keeping with the pressing nature of climate science, policy-makers are increasingly focusing on nationally appropriate mitigation actions ("NAMAs") at sectoral and national levels, which can be undertaken more efficiently than individual emission reduction projects. Yet existing climate agreements pose unduly steep barriers for nations that wish to enter carbon markets with actions at national and sectoral levels. It is therefore vital that when nations agree on a new climate accord, and when the U.S. Congress enacts climate legislation, these instruments include provisions that welcome nations into carbon markets at national and sectoral levels, on the basis of minimum elements that safeguard environmental integrity. We call these provisions "docking stations."

What are docking stations?

Docking stations are the provisions in a global climate treaty or a national or regional greenhouse gas emissions law that connect nations to carbon markets. Docking stations can also

be envisioned to enable nations to connect with other types of carbon-related finance, including funds to support adaptation.

Why are docking stations needed?

Docking stations are needed for many reasons —to enhance nations' ability to connect carbon markets more efficiently, to facilitate access to adaptation assistance, and to create an architecture that welcomes nations into the global effort to combat climate change.

Connecting to carbon markets. As the world transitions to low-carbon economic growth, nations will need assistance in financing that transition. A principal source of financing will be carbon markets, created when nations cap their global warming pollution and issue

valuable emissions allowances to firms who must reduce their emissions to the level of their caps. Firms that reduce emissions below capped levels can save the resulting surplus allowances, or sell them to other firms. The system, launched in the 1997 Kyoto Protocol, is already generating tens of billions of dollars in carbon market finance.

Kyoto, however, restricts developing countries' access to carbon markets, making their carbon finance available only for individual emission reduction projects. Provisions in the Kyoto accord make it very difficult for developing countries to obtain broad access to carbon finance for sector-wide or nation-wide actions.

Instead, a new climate accord, as well as national climate legislation, can include carbon market docking stations—provisions that welcome into carbon markets nations that choose to undertake low-carbon economic growth at sectoral or national levels. Recent announcements by the governments of Mexico and South Korea indicate interest in this type of approach.

Docking into adaptation assistance. A new climate accord, as well as national climate legislation, can include docking stations to enable nations to access assistance for adaptation to climate change. Some of the world's poorest nations are considering the inclusion of such a docking station in the new international accord.

Creating a welcoming architecture. Experience indicates that different nations will require different time periods, depending in part on their national legal systems, for considering and joining a new international climate accord. Docking stations could enable a new accord to welcome different nations into the global effort at different times.

Benefits of carbon market docking stations

Speed & flexibility. Docking stations can be designed so as to enable nations to dock into carbon markets swiftly and easily, and to provide support for them to do so, greatly reducing the bureaucratic burden of the current project-by-project approach.

Economic opportunity. Docking stations could allow rapid access to carbon markets, unleashing finance for low-carbon economic development on a much larger scale than previously available, spurring innovation and technology transfer across entire sectors of their economies, and re-aligning broad market signals in favor of a wide array of low-carbon economic growth opportunities. At the global level, docking stations would rapidly increase the size and power of carbon markets, generating increasing amounts of funding for large-scale economic transition.

Equity. Docking stations can redress the current inequity in climate agreements, by providing all nations with access to the incentives available through carbon markets, rather than making those benefits available primarily to industrialized nations.

Environmental integrity. By welcoming all nations to participate in global systems to cap and trade emissions, docking stations would expand coverage of the global emissions cap, reduce leakage concerns and increase the chances that global emissions start to decline within the decade. At the same time, careful design of docking stations would safeguard the environmental integrity of the emissions allowances traded under the cap. By offering nations real financial incentives to start measuring and reducing emissions at home, docking stations would also ensure national efforts are aligned with the ultimate goal of lowering global emissions.

Case study of a docking station: REDD in proposed U.S. climate legislation

Climate legislation that passed the U.S. House of Representatives in June 2009 includes a docking station for tropical forest nations to participate in Reducing Emissions from Deforestation and Forest Degradation (REDD). The REDD docking station includes provisions for:

- negotiating a baseline rate of deforestation at national or subnational levels;
- measuring reductions in deforestation achieved below the baseline rate;
- compensation, via carbon markets, for reductions achieved below baseline;
- financial support, via a set-aside of emissions allowances from the U.S. national cap, for building capacity and infrastructure in tropical forest nations.

Table 1: Key features of successful market-based docking stations

FEATURE	EXPLANATION
Commitments and performance measured in tonnes	Caps must be expressed and measured in absolute tonnes, rather than intensity or similar measures. Credit is awarded relative to these caps rather than on a project basis.
Caps covering a significant share of total emissions	All parties must select a base year and adopt successive multi-year emissions budgets. Caps should be national in scope or, if sectoral, must cover a significant share of national emissions.
Real and verifiable reductions in emissions	Emissions budgets must be defined against known historical baselines, rather than business-as-usual projections. Voluntary sectoral "no-lose" targets are not eligible for docking.
Consistency, predictability, and durability	All parties must have multi-year emissions caps for multiple periods, with periodic scientific reviews. Required minimum of three five-year budgets. Caps and rules must be insulated from arbitrary changes to ensure system integrity and credibility.
Measurement, reporting and verification	Emissions must be reported annually, including from deforestation. MRV protocols and capacity must be rigorously verified.
Transparent transaction tracking	Allowances must be uniquely vintaged; transfers must be recorded in publicly accessible registries. All transfers are added to recipient's budget and subtracted from transferor's.
Fungibility among allowances	Allowances are fully fungible. No discrimination among types of allowances: a tonne is a tonne.
Accountability—legally binding cap	At a minimum, national commitment to enforce cap via national legislation is required.
Market oversight	Independent oversight agencies are required. Conflicts of interest among rating agencies must be barred.

Core elements of carbon market docking stations

Docking stations can take various forms, but five core elements are needed to ensure environmental and financial integrity and capacity for nations docking into carbon markets:

1. **An absolute, legally enforceable cap on sectoral emissions.** Caps can be calculated on the basis of a historical base year or years, and can be sectoral, multi-sectoral or economy-wide. Emissions caps can be legally enforceable either through international agreements or as a matter of domestic law.
2. **Access to global carbon markets,** providing capital and investment flows at the scale necessary to finance low-carbon economic development—while driving innovation and deployment of new technology.
3. **A filter mechanism to protect the environmental integrity** of the core global trading system. Access to the global system can be tied to rigorous quality reviews of a nation's capacity to measure and monitor emissions.
4. **A phasing mechanism** with clearly established rules and criteria that gradually raise the level of commitment for countries.
5. **Capacity-building** to enable nations to dock into carbon markets swiftly and with integrity.

Different nations come to the climate change challenge and the global carbon market with different priorities, different emissions profiles, and different development needs.

A new global climate agreement might include one docking station tailored to tropical forest nations, another for emerging economies, and a third for small island developing states and least developed countries.

It is clear a 2009 global climate agreement can easily include provisions to allow trading between Parties and non-Parties.

For example, a docking station for emerging economies could facilitate rapid development of NAMA plans for a range of sectors, and mechanisms for swift financing and oversight of clean technology investments to drive emissions below NAMA levels. A docking station for small island nations could offer adaptation funding as well as financing and oversight of clean technology investments coupled with NAMAs aimed at producing small but verifiable emissions cuts. And the agreement could allow for the design of new types of docking stations as needed.

Precedents for docking stations in environmental treaties

A look at how docking stations currently function in environmental treaties illustrates another reason why the concept might prove useful in the global climate talks.

The Convention on International Trade in Endangered Species (CITES) establishes a framework for regulating the trade in endangered species. It allows trade between Parties and non-Parties when non-Parties adopt comparable scientific and management standards for the protection of endangered species and when the trade is documented and entered in the CITES database.

The Basel Convention on Transboundary Movement of Hazardous Wastes allows movement of waste between Parties and non-Parties when such trade is conducted under conditions not less environmentally sound than those specified in the treaty. Over thirty bilateral and multilateral agreements have been notified to the Basel Convention Secretariat under this provision.

Seen in this light, it would be quite consistent with treaty practice if a new global climate agreement allowed emissions trading between Parties and non-Parties when non-Parties enact comparable emission caps and meet other minimum requirements for "docking in" to carbon markets.

Ease of implementation

Docking stations can be built into the architecture of the global agreement with as few as four basic steps. Creating individual docking stations would require further design, but the architecture itself can be exceptionally streamlined by:

- Including a provision allowing nations that have adopted absolute, legally enforceable national or sectoral emissions caps to dock into the new agreement's carbon market.
- Assigning the Secretariat or an independent panel the authority to determine whether nations have met the docking requirements.
- Granting the Secretariat or an independent panel authority to oversee the market.
- Adopting clear rules to guard against conflict of interest within the Secretariat or among members of the oversight agency.

Participation in a global carbon market agreement could be even more streamlined by creating an opt-out provision whereby any trading between nations with caps on emissions would be valid unless a certain number of Parties to the global climate agreement objected.

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For more information, please contact international@edf.org

Environmental Defense Fund
1875 Connecticut Ave NW, Suite 600
Washington, DC 20009

T 202 387 3500
F 202 234 6049
www.edf.org

New York, NY / Austin, TX / Bentonville, AR / Boston, MA / Boulder, CO / Raleigh, NC Sacramento, CA / San Francisco, CA / Washington, DC / Beijing, China