

Policy Roundtable – Carbon Market Cooperation in Northeast Asia

– Brief Summary and Participant List –

March 23-24, 2017 • The Asia Society Hong Kong Center • The Excelsior Hotel

SUMMARY

The Asia Society Policy Institute (ASPI) convened a policy roundtable in Hong Kong on March 23-24, 2017 to explore opportunities for expanding carbon market cooperation in Northeast Asia. Twenty-seven regional and global experts, policy leaders, and private sector practitioners engaged in discussions that yielded a future research agenda and helped to shape ASPI's future action plan.

Challenges and opportunities abound for carbon market cooperation between China, Japan, and the Republic of Korea (hereafter Korea). These countries are each pursuing ambitious and innovative carbon pricing regimes, and the next five years will be essential for constructing and expanding domestic carbon markets while deepening regional and international cooperation. Given the scale of regional economies, these developments are moving the locus of globally impactful carbon pricing efforts squarely toward Northeast Asia. Rather than revisit in detail the case for why linking these markets could yield positive outcomes, participants in Hong Kong focused on specific challenges associated with linking along with potential steps forward.

There are both intrinsic and process-oriented challenges to cooperating and ultimately linking carbon markets in Northeast Asia. Intrinsic challenges include the fundamental economic and political differences that characterize China, Japan, and Korea, as well as the different cap designs, coverage, allowance structures, and offset approaches that define their respective carbon markets. Process-oriented challenges include the difficulty of cultivating political will and private sector support to drive carbon market cooperation, the necessity of balancing stakeholder interests across multiple sectors, and the balancing of long-term goals with incremental actions to leverage near-term opportunities.

To solve these challenges, it is vital that China, Japan, and Korea not let the best be the enemy of the good. Formalized linkage agreements across a comprehensive suite of geographies and sectors are neither realistic nor appropriate in the current regional context. This should not derail cooperative efforts, but rather compel regional and international champions to find areas for progress.

Such champions can call upon existing groundwork. Article 6 of the Paris Agreement, best practice measurement, reporting, and verification (MRV) principles, and the market linkage experiences elsewhere in the world all provide baselines for cooperation in Northeast Asia. Regionally-focused actions during the formative years between 2017 and 2020 can build these baselines into strong linkage foundations, but only through answering essential carbon market linkage questions in ways specific to the Northeast Asian context. ASPI developed a research agenda as a means for answering such questions, and for providing valuable inputs to stakeholders in a position to steer regional carbon market linkage efforts.

PROPOSED 2017 ACTION PLAN

Despite the challenges identified, there was a strong consensus among Hong Kong participants that dialogue on carbon market cooperation in Northeast Asia should be deepened. For its part ASPI will continue to host private roundtables and policymaker briefings, spearhead the formation of a regional carbon market consortium and joint research initiatives, and offer public analysis on the importance of regional carbon pricing cooperation. Activities during the remainder of 2017 include:

May 2017 – Private Sector Dialogue and Scenario-Building Exercise

ASPI will convene a public panel on May 24, 2017 at the Innovate4Climate: Finance and Markets Week (I4C) in Barcelona. The panel will feature a leading private sector carbon market practitioner from China, Japan, and Korea, and address potential benefits and challenges of linked markets from regional business perspectives. ASPI will also seek to hold a scenario-building and simulation exercise on market linkage to leverage the presence of key international experts, practitioners, and private sector actors at the I4C.

September 2017 – Report Publication

ASPI will publish a report that combines findings from the Hong Kong roundtable, the I4C private sector panel and scenario-building exercise, desk research, and inputs from ASPI's regional and international network. The report will detail the foundation set for carbon market linkage in Northeast Asia, explore continuing technical and political challenges, and propose processes for finding policy solutions.

November 2017 – Policy Brief Publication and Presentation of Initiative Findings

ASPI will publish a policy brief on the role of private sector actors in Northeast Asia in the development and operation of a regionally-linked carbon market platform, and present the policy brief and other initiative findings through an event in New York in advance of the UNFCCC COP23.

November 6-17, 2017 – COP23 Side Event and Working Group Meeting

ASPI will convene authors to present select papers from the above research agenda at a COP23 side event in Bonn. ASPI will likewise host a private working group meeting with consortium partners and carbon market officials from China, Japan, and Korea to discuss 2017 initiative outcomes and solidify action strategies for 2018-2020.

—Participants—

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