EUI Climate Week

3-6 May 2022

The EUI Climate Policy week will consist of 3 parts:

A. **Florence Process – closed session (3 May)**
B. **EUI/IETA/PIK event 'A New Normal for Carbon Markets?' (4 May)**
C. **Climate sessions of State of the Union 2022 (5/6 May)**

The attraction of the EUI Climate week is that well-informed carbon market specialists with different backgrounds will finally be able to meet and discuss informally after 2 years of online communication. Two-hour sessions are meant to facilitate lively exchanges of view.

The meetings will be held in the EUI premises (presumably in hybrid form) partly downtown Florence in Palazzo Buontalenti, and partly in the Badia Fiesolana in Fiesole (apart from Palazzo Vecchio for SoU2022 on 6 May). Online participation would be possible but presence in person will be encouraged (given the mild forecasts related to Omicron)

The envisaged audience for the Florence Process is official representatives; invitations are decided upon by the EU Commission

The Conference on Carbon Markets is organised together with PIK (Potsdam) and IETA (International Emissions Trading Association). The targeted audience is a mixture of well-informed policy makers coming from academia, private businesses, think-tanks, and carbon market observers. Officials taking part in the Florence Process will be invited to participate as well. Participation would be on invitation only and would allow for some 35 persons present in person in Florence (given COVID room restrictions are still applicable but may become more relaxed in May).

All invited guests would be offered a free ticket for the SOU2022.

A. 6th Meeting of the Florence Process (3 May 2022)

Closed meeting of policymakers from compliance markets from Canada, California, China, EU, New-Zealand, Quebec, UK and Switzerland. A dinner will be hosted by the EU Commission to which also participants of the EUI/IETA/PIK conference (A New Normal for Carbon Makets?) are invited.

B. EUI/IETA/PIK Conference: A New Normal for Carbon Markets? (4 May 2022)

Policy context:

Carbon pricing is on the rise worldwide. Carbon prices are increasing in compliance markets while the drive to net-zero has injected a remarkable degree of dynamism and creativity in voluntary markets.

In the coming years, the capital investments needed for the net-zero climate transition are bound to be so large as to re-write conventional investment rules. In parallel, the cost of carbon is increasingly being considered in investment decisions. Carbon markets are increasingly seen both as a new opportunity and as a risk. Markets anticipate what lies ahead and a higher cost of carbon is perceived as underpinned by science and Paris goals, accelerating technological development.

Compliance carbon markets have entered a new era of development, as they attract the interest of large-scale capital (investment/equity funds, technology companies, etc.) and inspire a wealth of new business models. Voluntary carbon markets seem to lead to much faster action in some jurisdictions than is typical of regulatory processes and are driven by concrete business interests. The prevailing sentiment in these markets is of high-expectations that commitments by companies and countries to net-zero will drive massive interest in a new carbon asset class, underpinned by the scientific consensus of there being critical and urgent need to decarbonise our economies.

In this context, carbon prices are not only driven by significantly changed economic and energy fundamentals but also more and more by stories and narratives about the future. Under such pressure, a proliferation of *ad hoc* standards emerges, leading to more fragmentation of approaches. The voluntary carbon market sees many attempts to create the trust necessary for its good functioning. Compliance carbon markets also develop in dispersed order, limiting the extent to which they interact with one another. Instead of increasing international convergence on carbon markets, we see more international competition and divergence.

There are several implications for policymaking:

- For market mechanisms to work well, at a larger than national or regional scale, cooperation between jurisdictions is essential to define the rules of the game, or, at least, a set of minimum standards (as has recently been agreed in the context of the OECD for corporate taxation).
- Market design and regulation may need to be adjusted to account for “carbon markets as financial markets”. The role of information, related to both monitoring and forward guidance to manage price expectations, becomes more important.
- Possible integration of voluntary markets and compliance markets could usefully extend the coverage of carbon pricing, but this may hinge on transparency, integrity of compliance instruments, trust, and appropriate standards. Voluntary markets may become a primary driver of international carbon trading, creating near term demand for a global pool of carbon credits that compliance markets may accept on a selective basis.
- Some form of regulatory oversight seems helpful for both markets but needs more concrete elaboration.

- It is essential to maintain compatibility with the accounting rules of the Paris Agreement, both to serve as an agreed multilateral umbrella architecture, but also as a common reference for the faster pace of market developments. In view of potential growing cooperation between jurisdictions, consistency with the guidance developed under Art 6 of the Paris Agreement will be important.
- Discussions on 'Climate Clubs' might endeavour to collaborate in terms of comparing climate ambition, on the governance of carbon markets, and on how to take account of embedded carbon in traded goods while remaining aligned with WTO rules.

Program:

Wednesday, 4 May 2022

10.00: Opening

Alex Stubb, *Director, STG, EUI* and Jos Delbeke, *EIB Climate Chair, STG, EUI*

Dirk Forrister, *President, IETA*

Ottmar Edenhofer, *Director, PIK*

10.30: Session 1: What is going on in the EU ETS and other compliance carbon markets?

Carbon prices in compliance markets keep increasing. In 2021, all main carbon trading systems saw record high prices. EU ETS prices are hovering now around €90/t which is in the range of €50-100 that Stern-Stiglitz claimed was necessary. Will these prices keep going up? From an investment perspective, not least in hard-to-abate sectors, the current price level undoubtedly stimulates investments in low-carbon technology and innovation but how can more predictability be established in the medium term? Due to increased trading by financial operators, is there a need for a strengthened market oversight or are current financial market rules (such as MIFID in the EU) sufficient? To what extent is the recent pricing dynamic driven by energy supply concerns and geopolitical considerations?

Introduction:

- Jostein Kristensen (Oxera)

Panellists:

- Yan Qin (Refinitiv)
- Estelle Cantillon (ULB)
- Robert Jeszke (KOBiZE)
- Michael Pahle (PIK)

Conclusion:

- Jos Delbeke (EIB Climate Chair, EUI/STG)

12.30: Light lunch

13.30: Session 2: How to strengthen the integrity of voluntary markets in the race to net-zero

How to secure high quality credits and avoid the race to the bottom? How can the market distinguish between offsets and removals? How can voluntary carbon markets contribute to the zero-carbon transformation of manufacturing industry? How can the transparency of voluntary carbon markets be improved? Which role for rating agencies, or auction bodies? How to improve the synergy between voluntary and compliance markets?

Introduction:

- Nat Keohane (C2ES)

Panellists:

- Julie Mulkerin (Chevron) (tbc)
- Guy Turner (Trove)
- Jan Cornillie (EUI)
- Kelley Kizzier (EDF)

Conclusion:

- Artur Runge-Metzger (former Director EU Commission)

15.30: Coffee

16.00: Carbon Clubs and border measures

Need for more international cooperation on carbon markets. Are border measures conducive to carbon clubs, or do they stand in the way? What is the role of role for G7/G20/OECD? How can real policy efforts rather than announcements by countries be compared in an objective manner? Can carbon clubs strengthen cooperation in the fields of low-carbon technology and of carbon pricing?

Introduction:

- Ottmar Edenhofer (PIK)

Panelists:

- Simone Tagliapietra (Breugel)
- Billy Pizer (RFF, Duke University, US)
- Somanathan Eswaran (Director, Indian Statistical Institute)
- Susanne Dröge (SWP)

Conclusion:

- Peter Vis (EUI/STG)

17.45: Conclusions

19.30: Dinner, hosted by EUI/STG

C. Participation in State of the Union 2022 (5 and 6 May 2022)

The 12th edition of **The State of the Union** will take place in Florence **from the 5 to the 7 May 2022**. Sessions will address the challenges and opportunities Europe is facing in a rapidly changing environment, characterised by the climate emergency, ambitious plans for a digital transition, and the implementation of an economic recovery package to support citizens hit by the COVID-19 pandemic. In high-level addresses, panels and conversations, world leaders and experts will tackle issues of multilateral governance and Europe's role on the global stage.

Program of SOU2022 related to Climate Change:

Thursday, 5 May 2022 in Badia Fiesolana, Fiesole

12.15-13.15: Will the Ukraine Crisis Weaken Europe's Climate and Energy Policy?

Modeator: Jos Delbeke

Speakers:

- Francesco Starace (Enel)
- Ottmar Edenhofer (PIK)
- Kristalina Georgieva (IMF) (tbc)

The Ukraine crisis has made Europe's energy dependence painfully clear - exactly as major policy decisions are being negotiated on climate and energy. The EU already adopted ambitious goals of climate neutrality by 2050, and a 55% reduction of emissions by 2030. The session will consider the perspective for these policies in the short and medium term. In the coming weeks and months, the outlook is grim. Gas is critical for both residential heating and significant industries such as chemicals and fertilizer. As populations are hit by dramatic increases of energy bills and rising food prices, indigenous energy resources may become attractive, not least coal, and this may halt the decade long decline in Europe's greenhouse gas emissions. In the longer term, we are likely to see greater diversification in energy use and further improvements in energy efficiency and investments in renewable energy. However, these efforts also require a lot of new raw materials, and as these are scarcely available in Europe, a geopolitical approach to its trade policy may be required. Equally, a speedy scaling up of new technologies will be key while new infrastructure investments will be needed to facilitate these developments.

14.45-15.45: Making the Transition to Carbon Neutrality

Moderator: Andris Piebalgs

Speakers:

- Fatih Birol, IEA
- Teresa Ribera, Minister for Ecological Transition, Spain
- Kadri Simson, Energy Commissioner

The EU's transition to carbon neutrality will require profound changes in the EU energy sector. The European Commission's proposed "Fit for 55" package provides a path to-wards achieving a net-zero emissions energy system. It will help set carbon prices that could drive a step increase in energy efficiency, create a well-functioning EU energy market, and provide ambitious targets for the adoption of renewable energy. At the same time, the transition will be strongly influenced by developments in global fossil fuel markets and geopolitical events. Does the current system, and the measures proposed, need to be adjusted? How can customers be encouraged to support this transformation? Are safeguards needed to smooth the transition?

17.15-18.15: Climate Neutrality and Social Sustainability

Moderator: Simone Borghesi

Speakers:

- Partha Dasgupta, University of Cambridge
- Michael Spence, Stanford, 2001 Noble Prize in Economics
- Bea Yordi, EU Commission

Achieving net-zero emissions in the next decades implies a rapid reduction in emissions, significant increases in carbon prices, and deep structural economic changes. These changes are generating concerns about their social impact. Possible job losses in specific sectors and increases in carbon prices may be perceived as socially unacceptable for their potentially regressive effects, especially at a time in which energy prices are increasing in most countries. This raises the questions addressed in this session:

(i) Can climate neutrality be socially sustainable?
(ii) Will it pass the social acceptability test?
(iii) How can it be reconciled with the need to minimize/eliminate social impacts?
(iv) How do different jurisdictions (EU, US, India, China) address this problem?

19.00-20.30: Drinks