

# CLIMATE TEAMS

## A new model for investor-host climate cooperation

Suzi Kerr, Ruben Lubowski, Robert Heilmayr and Seong-il Kim

Motu Economic and Public Policy Research and Victoria University of Wellington, Environmental Defence Fund, University of California, Santa Barbara, and Seoul National University



This handout proposes a new mechanism to extend international climate cooperation. The climate team mechanism is designed to allow countries to work together to transfer resources for credible emission reductions. This new model is being developed in partnership among researchers at Motu Economic and Public Policy Research, Seoul National University, Universidad de los Andes, Colombia, Environmental Defense Fund, and the University of California, Santa Barbara.

### KEY POINTS

Some countries are willing to transfer significant resources to increase the speed of others' transition to zero net emissions. No effective, credible international mechanism that can be applied to emission reductions in all sectors currently exists to do this, but the cooperative approaches of Article 6.2 of the Paris Agreement provide space for innovation.

A 'climate team' offers one model to enable host (low marginal cost) and investor (high marginal cost) countries to cooperate to genuinely reduce global emissions and enable more ambitious Nationally Determined Contributions (NDC) in both. A large (national or jurisdictional) scale climate team agreement can more easily demonstrate additionality of mitigation and avoid leakage. It can take advantage of existing commitments (NDCs as a basis for crediting baselines) and monitoring (National Inventories) thus increasing transparency and reducing administrative costs.

Transformational change requires significant policy changes and large investments which can be both economically and politically costly. The climate team model gives the host country confidence that they will receive an acceptable return if they successfully reduce emissions.

### THE CHALLENGE THE 'CLIMATE TEAM' MODEL ADDRESSES

Under the Paris Agreement each country chooses the contribution to global climate stabilisation that they are able and willing to achieve. This is their NDC. Because opportunities to mitigate and the resources to do so vary greatly across countries, the marginal cost of reductions to achieve these domestically set goals varies greatly. If resources, and mitigation outcomes, can be transferred across countries, these resource flows can enable credible additional mitigation beyond NDCs in countries with low marginal mitigation costs. The lower overall mitigation costs could enable countries to accept more ambitious NDCs in future ultimately leading to more global mitigation. No transfer mechanism has been specifically elaborated under the Paris Agreement but Article 6 offers the opportunity for innovation to address this critical challenge.

Traditional models for resource transfer, project-based offset programmes such as the Clean Development Mechanism or linkage of emissions trading systems, have limitations. Project-based offsets programmes have high transaction costs and, despite strong efforts to improve processes, are inherently unable to achieve high levels of additionality (Kerr and Millard-Ball 2012). It is also unclear how project-based offsets can operate in the context of sector or economy-wide NDCs and the need to avoid double counting of reductions towards international commitments. Linking of emissions trading systems will be effective in some circumstances. However linking requires the willingness and ability to create a strong emissions trading system within each jurisdiction. Also, when the climate politics of one country are highly unstable, a linked emissions trading system can lead to unstable price signals for investment in the other (as in a currency union when monetary or fiscal policy is unstable in one country). The smaller trading partner will largely lose control over its emissions price and lose much of its climate policy sovereignty (Ormsby and Kerr 2016). Existing linkages are among very similar jurisdictions that are already closely connected economically and culturally (Partnership for Market Readiness and International Carbon Action Partnership 2016).

### WHAT IS A CLIMATE TEAM?

A climate team takes a fundamentally different approach to traditional mechanisms. It is an agreement among governments that comprises:

1. an emissions baseline that uses the host's NDC as a starting point for negotiation;
2. pre-commitment of total investor funds available for payments;
3. a pre-agreed price range for payments per tonne of reduction;
4. assessment of results relative to the baseline using the host's national emissions inventory;
5. results-based payments from the investor to the host.



## THE CLIMATE TEAM MODEL HAS FIVE KEY BENEFITS

**Credible baselines for large scale transfers:** ‘Investor’ countries need large amounts of internationally transferrable mitigation outcomes (ITMOs) that credibly go beyond the host’s NDC. A stringent climate team baseline in the early years allows transfers before 2030 if the host country is credibly on-track to exceed their NDC. Transparent setting of these baselines, with oversight by a wider set of countries, will increase confidence in the integrity of the climate team agreement and give the investor confidence that their contribution will be recognised for achievement of their own NDC. Using large scale, possibly even economy-wide, baselines that reduce problems of assessing additionality (van Benthem and Kerr 2013) and avoid within-country leakage, also increases the credibility of the transferred units. The Warsaw Framework for Reducing Emissions from Deforestation and Forest Degradation (REDD+) provides a precedent for this through the idea of ‘jurisdictional offsets’.

**Robust monitoring:** A climate team model uses the existing large-scale monitoring system (national emissions inventory), which already meets best international practice and involves auditing processes, to minimise bias and provide consistency over time at a national level.

**Guarantee of resource flow to host if they achieve large reductions:** The clear pre-commitment of funds to pay for future transfers and the minimum transfer price give the host country greater confidence when making transformational policy changes and public and private investments in mitigation actions.

**Security of supply of ITMOs to investor:** The investor pays for the transfer of mitigation outcomes only after the mitigation has been proven to have occurred. The host country commits to give priority to the climate team members when transferring mitigation outcomes until the investor’s pre-committed funds are exhausted. Together with the maximum agreed price, this provides greater security of supply to investors. If reductions are made, the investor has the right to claim them at a reasonable price.

**Reduced risk of ineffective mitigation effort:** There is still a very real risk that mitigation effort in the host country, however genuine, will produce only small reductions, particularly in the short term. This is addressed partially because the climate team model aligns the incentives of investors and hosts to work together toward successful low emission transformation in the host country. Climate finance (with no expectation of ITMOs) can be used strategically to help the host reach the crediting baseline. The climate team agreement provides a strong basis for the provision of expertise, strategic public and private investments, and a shift in the political climate and society-wide narrative toward an inevitable transition to low emissions. It facilitates politically challenging regulatory changes. The investor and hosts can choose to combine in teams that they believe will be effective. Countries may share policy experience, technology and skills. Investors can also choose to invest in a portfolio of climate team (and other) agreements to reduce the risk that they will not receive sufficient ITMOs to achieve their own NDCs.

This approach will not work for all countries, but could work for a significant subset. The climate team model depends first on a clearly defined Nationally Defined Contribution (NDC) in the host country. This NDC needs to have broad sectoral coverage and a level of mitigation ambition that is acceptably high to both the investor and the wider international community. It depends also on an adequate National Inventory in the host country; this can be improved through the climate team agreement. The level of funding committed by investors as a group needs to be high enough to enable transformational change and the host country must, with help, have the capability to achieve this change.

## REFERENCES

- Benthem, Arthur van, and Suzi Kerr. 2013. “Scale and Transfers in International Emissions Offset Programs.” *Journal of Public Economics* 107 (November):31–46. <https://doi.org/10.1016/j.jpubeco.2013.08.004>.
- Kerr, Suzi, and Adam Millard-Ball. 2012. “Cooperation to Reduce Developing Country Emissions.” *Climate Change Economics* 03 (04):1250023. <https://doi.org/10.1142/S2010007812500236>.
- Ormsby, Judd, and Suzi Kerr. 2016. “The New Zealand Emissions Trading Scheme de-Link from Kyoto: Impacts on Banking and Prices.” Motu Working Paper 16-13. Wellington: Motu Economic and Public Policy Research. <http://motu.nz/our-work/environment-and-resources/emission-mitigation/emissions-trading/the-new-zealand-emissions-trading-scheme-de-link-from-kyoto-impacts-on-banking-and-prices/>.
- Partnership for Market Readiness, and International Carbon Action Partnership. 2016. “Emissions Trading in Practice: A Handbook on Design and Implementation.” Washington DC: World Bank.

Written by Suzi Kerr (Motu Economic and Public Policy Research and Victoria University of Wellington), Ruben Lubowski (Environmental Defence Fund), Robert Heilmayr (University of California, Santa Barbara), and Seong-il Kim (Seoul National University), in collaboration with: Dong-hwan Kim and Sunjoo Park (Seoul National University), Angela Cadena, Mario Andres Londoño and Diana Paola Calpa Reina (Universidad de los Andes, Colombia), Alex Hanafi (Environmental Defense Fund) and Edmund Lou (Motu). This research has been funded by the Aotearoa Foundation, Te Punaha Mataatini Centre for Research Excellence, and with the support of R&D Program for Forest Science Technology (Project No.2017048B10-1718-BB01) provided by the Korea Forest Service. The handout was written for a workshop run by the Harvard Project on Climate Agreements. All opinions expressed and any errors are the responsibility of the authors.