



EU-GCC WEBINAR
CARBON PRICING IN THE EU & GCC
THURSDAY 15 SEPTEMBER 2020, 14.00 - 14.30 CEST

Webinar summary

This document is a summary of the EU-GCC webinar on "Carbon Pricing in the EU & GCC". The webinar was organised by the EU-GCC Clean Energy Technology Network (funded by the EU) and the Carbon Pricing Leadership Coalition (CPLC). It was the third in a series to explore current thinking amongst the EU and GCC regions on climate change. The summary reflects key issues that were discussed and should not be read as an exhaustive list of all technical issues nor represent the views of the organisations represented by the speakers. The full recording of the webinar is available [here](#).

Speakers

Session 1 - Presentations

- **Tanzeed Alam**, Climate Change Convener, EU-GCC CETN (**Moderator**)
- **Jos Delbeke**, Professor at European University Institute, Florence Italy & KU Leuven, Belgium, former Director-General of the European Commission's DG Climate Action
- **Grzegorz Peszko**, Lead Economist, World Bank
- **Katie Sullivan**, Director, International Emissions Trading Association

Session 2: Panel Discussion

- **Angela Kallhauge** Head of Carbon Pricing Leadership Coalition Secretariat (**Moderator**)
- **Mohamed Al Rashidi**, Director of Electricity & Water Department & Acting Director of Energy Dept, GCC-Secretariat General
- **Andras Juhasz**, Representative, Clean Energy Business Council MENA & Head of Sustainability and CSR, Acwa Power
- **Vicky Pollard**, Team Leader, Unit for International Carbon Markets, Aviation and Maritime, Dg Climate Action, European Commission
- **Shannon Phillips**, Member of Legislative Parliament - Alberta, Former Minister of Environment, Alberta, Canada
- **Chris Leeds**, Executive Director – Commodity Origination, Standard Chartered Bank

Summary of Discussion

Tanzeed Alam, Climate Change convener of the Network, welcomed the speakers and the participants. He provided a brief introduction on the EU GCC Clean Energy Network, funded by the EC and informed on the practical rules for the smooth running of the webinar. Angela Kallhauge then introduced the CPLC, an initiative hosted by the World Bank.

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Following the welcome note, the three presentations were provided during session 1.

1. Prof Jos Delbeke presented details of the EU Green Deal and the Emissions Trading Scheme (ETS). The presentation is available [here](#).
2. Katie Sullivan presented details of the economic value that international carbon markets can provide to help achieve the goals of the Paris Climate Agreement. The presentation is available [here](#).
3. Grzegorz Peszko presented key findings from a recently published book 'Diversification and Cooperation in a Decarbonizing World'. The presentation is available [here](#).

Session 2

This section highlights the key points made by each panellist in response to the question from the moderator.

Shannon Phillips

- Presented the key lessons learnt in implementing a carbon price in Alberta, including the policy making process, the results and changes needed.
- Alberta produces 80% of Canada's oil and 65% of its natural gas, provinces have jurisdiction over natural resources. They are the largest exporter to the USA (more than GCC). Canada would not have high resilience to the development of international carbon pricing which is why it has to work with and integrate with other global markets.
- In 2008, Alberta province brought in a modest \$15/tonne price for industrial emissions and the price did not change for a long time, which impacted the ongoing viability of projects and trust in the market. The policy was brought in due to private sector demand, with companies citing that investors and shareholders were requesting information on how climate change and financial risks were being managed by the industries.
- In 2015 the federal Canadian government brought in a more progressive approach to climate change, resulting in Alberta updating to an output based allocation of allowances, some free with changes over time.
- Ensuring a just, democratic and transparent legislative framework is crucial, as is doing this all in consultation with policy makers and industries.
- The carbon pricing policy was done in a way to also facilitate international conversations and connections with other carbon markets such as the EU. How markets 'talk' to each other is crucial vis a vis supply/demand of credits.
- Alberta created an innovation fund with the right checks and balances on where the money goes.

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- The overall process took 2 years and the work done in Alberta, such as development of protocols and free allocations, was applied at the federal level.
- Dynamic and adaptive nature of policy important, learning from other jurisdictions.

Vicky Pollard

- Highlighted EU green deal as a major step change in ambition. EU aims to be the first carbon neutral economy by 2050 and give an example to others globally on how to get there.
- The current legislation is based on meeting targets with domestic actions and without using potential offsets from international carbon markets. That is to ensure that all sectors of the EU economy are transformed and move towards net zero emissions and not to displace efforts outside the region.
- EU is still supporters of international carbon markets and the legislation allows them to link the ETS to other compatible cap and trade systems around the world.
- Creating an international carbon market is very important as it is a strong incentive for countries to take action to net zero emissions and in meeting the goals of the Paris Agreement. There will be a need for ITMOs with respect to transfers emissions reductions. Also, there is a need to think about offsets going forward, measures to avoid double counting, promoting ambition and consistency achievement of NDCs. Setting offsets should not undermine achievement a party's NDC target. There is also a need for offsets to change over time from crediting emissions reductions to crediting removal of carbon.
- Currently the EU ETS has been linked to EEA countries (including Norway) for a long time, more recently with the Switzerland ETS and cooperation occurs with other regions and countries such as Canada, California and New Zealand.
- The EU also supports countries to implement their NDCs and develop carbon markets. For example, 10 years ago the EU started having discussions with China and have provided support for the development of China's national ETS.
- Linking of domestic ETS is very important for the development of an international carbon price but not all countries (especially least developed) can do this due to lack of capacity.
- There is a lot of potential for EU cooperation with the GCC on carbon pricing and the EU is happy to share lessons learnt, experience and knowhow to help the GCC identify how an ETS can work in the GCC context.
- Carbon border adjustments (CBA). CBA has been proposed in the European Green deal and is the subject of work to develop a proposal, to apply potentially after 2023. Given the EU ambition to be at net zero emissions by 2050, if other major partners do not take ambitious action, there will be a need to address the risk of carbon leakage from the EU, which would reduce the overall benefits in terms of reducing global greenhouse gases. The aim of the proposed CBA is to address the risk of carbon leakage. . The work is ongoing , so it is too early to say what it will look like, but the EU is firmly committed to compliance with WTO rules.

Chris Leeds

How financial and carbon markets can help the GCC reduce emissions.

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- Standard Chartered Bank (SCB) has been involved in the commodity markets for many years and is stepping up involvement in sustainable finance and providing capital for the energy transition. SCB's CEO, Bill Winters is the chair of a new task force to scale up voluntary carbon markets.
- Scaling up carbon markets is largely related to the private voluntary markets at this time. Even though the link to the ETS has been removed, it was still successful at scaling up some projects. The collapse of the link between the ETS and Clean Development Mechanism has resulted in the voluntary market shrinking considerably, with currently 140m tonnes of carbon credits issued last year, still way off 2GT of carbon offsets that are needed.
- While the focus should rightly be on companies reducing their own emissions, offsetting is also important as it can help leverage further investments in carbon reduction technologies. There is an increased move towards carbon removal, such as through afforestation, Carbon Capture and Storage (CCS) and direct air capture.
- The private market can mobilise capital more quickly and does not need to wait for regulations. SCB is working within the taskforce to move these areas forward.
- In summary, there is a lot the GCC can learn and do to spur innovation and investment needed to reduce carbon emissions. The points highlighted in Jos Delbeke's presentation is very relevant in this context.
- Creating a carbon price will incentivise the right technology and facilitate the changes, the higher the price the greater the incentive to reduce emissions and the better chance to develop new technology. When ETS was first put in place the majority of power in the EU was generated by coal but now much of that has been replaced by cleaner gas or emissions free renewables – the UK went without using coal to generate electricity for months this year. This has also resulted in increased capacity for renewable energy such as solar and wind, all of which helped to further reduce emissions further. A carbon price signal means companies can then invest in the right technology such as solar and commercial scale CCS in the GCC, something that would help scale up facilities such as those owned by the Abu Dhabi National Oil Company and Saudi Aramco.
- Free allocations are a subsidy, so they need to be taken away over time, which will create winners and losers. Conducting modelling research in the GCC can help understand the implications of these changes.

Dr Mohamed Al Rashidi

Dr Al Rashidi summarised the prospects for the GCC to establish a carbon price and offered advice for companies that are keen to assist.

- Carbon markets are a relatively new concept for the GCC region, with countries assessing the pros and cons of different systems and methods. Thus, the GCC has still not established or adopted a specific approach.
- GCC advice to stakeholders is to focus on assessing the results achieved by implementing various clean energy policies in the GCC and supplement lessons learnt with how other countries and regions have addressed hurdles. The GCC wishes to learn from international

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experience and customise to the local context and Identify what would be the best way such as a carbon tax or a cap and trade system.

- The GCC region has embarked on an ambitious energy transition pathway, implementing cleaner technologies and heavily invests on renewable energy projects for example in the region, the EU and wider Middle East.
- It is very important in this process to consider commitments and proposals made by the GCC countries through the formal processes of the Paris Climate Accord. This guides the processes and decisions in the GCC, and it is important to look at carbon trading and pricing in this context.

Andraz Juhasz

Mr Juhasz spoke about the prospects and challenges for establishing a carbon price in the GCC region.

- He highlighted the importance of green sustainable finance and carbon pricing for the GCC to create more favourable conditions, citing the importance of an adequate taxonomy that fits the special conditions of the region.
- For example, being able to use reverse osmosis water desalination, is more energy efficient than thermal, but this is not currently recognised or rewarded by carbon markets. The same applies for the creation of green hydrogen from renewable sources, where the GCC can play a leadership role. Being able to create such methodologies to acknowledge/accredit such technologies would not only benefit the GCC, but the wider middle-east region.
- As Article 6 (specifically 6.4) has not been finalised, it will stifle the formation of a regional carbon market and any potential links to international markets. Resolving this will help the GCC region understand what credits can be 'imported' and how to connect a regional market to the EU ETS.
- CDM future is uncertain after 2020, and no new methodologies can be accepted, so the desalination and green hydrogen projects being run by Acwa power cannot currently be registered. This makes it uncertain for companies as they are unable to use carbon trading for finance. Being able to create rules that can overcome these hurdles would help the GCC to accelerate a move towards becoming less carbon intensive.

Questions & Answers from audience

The following clarification questions were asked and answered by the speakers either live or directly through the Q&A function of the software.

Q1. Are there carbon markets in Asia?

- There are several existing and emerging carbon markets across Asia. South Korea has a well-established large compliance carbon market (K-ETS) covering ~70% of the economy's GHG emissions across large industry and power sector. China has 8 existing provincial pilot carbon markets with plans to launch its national ETS for the power sector by 2021. Tokyo has seen an ETS for buildings since 2010, and Kazakhstan launched a national ETS in 2013. Japan's also a leader in approaches to international carbon market cooperation through its Joint Crediting Mechanism (JCM), which has entered MOUs with over 17 countries – across Asia, Africa, Latin

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America and the Middle East (Saudi Arabia) – where country hosts (and recipients of Japanese technology) export associates GHGs to Japan to support its NDC. Other Asian countries exploring carbon markets include Indonesia, Philippines, Thailand and Vietnam.

Q2. What efforts will the EU put in place to ensure other regions follow suit, considering that climate change is a global issue rather than just a localised issue?

- The EU is focusing on climate diplomacy, to work with countries throughout the world, exchanging experience and developing capacity. 30% of EU spending in the EU and externally is earmarked for climate action, so that diplomacy is backed by our different funding and cooperation programmes

Q3. Do the panel truly think the ability to buy & sell carbon credits via NDC's distracts from true decarbonisation of industries by allowing developing countries to offset pollution elsewhere?

- IETA: No, not at all. On the contrary, enabling countries to buy and sell “internationally transferred mitigation outcomes” (ITMOs) will **facilitate and accelerate** the achievement of NDCs and net zero ambition. This is not an “either/or” scenario – decarbonization within borders should be sought and prioritized as much as possible, but international cooperation should simultaneously occur and be encouraged in order to drive billions of financing (mostly private capital) into least-cost reduction and removal opportunities over the near-mid-term. We encourage the audience to review the report, co-authored by CPLC, IETA and the University of Maryland, on the “Economic Value of Article 6”, showing that market cooperation could save more than USD 350 billion a year by 2030; an amount of climate finance that could then be channelled into approximately 9 GTCO_{2e} of enhanced mitigation by 2030.
- EU: it depends if the generation and use of offset credits takes into account the path to meeting commitments under the NDC of a party. Sale of cheaper credits/ emissions reduction opportunities for use by another party to meet its NDC can generate revenues for the seller, but also push up the cost for the party selling credits to meet its own NDC. The emissions reductions can only be used once- by the buyer if sold to another country.

Q4. What would be the link between carbon pricing and hydrogen deployment in the GCC?

- Various avenues for hydrogen to be enabled through carbon pricing. Depending on the carbon price and economics, hydrogen becomes more economic and demand for tech deployment could occur in economy (including by large emitting industries wanting to lower compliance obligations and costs). Also, hydrogen could be earmarked as a key clean technology to receive carbon revenue support (from allowance auctions or taxation revenue). There are also potential paths for credit generation, depending on the program/market/protocol.
- Lots of interest in hydrogen right now, and how carbon pricing can be used and designed to unlock this tech!
- Innovation funds from revenues from ETS / carbon pricing act alongside the carbon price incentive for renewable/ low carbon energy / CCS to fund demonstration/ first of a kind plant.

Q5. There are carbon markets that are making big impacts and supporting projects. Why do you think that is not happening here in UAE or the GCC? We have a project that is reducing over 300K tons of

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CO2 a year and we have to sell our credits to Norway rather than in this region where it would make a difference.

- The development of a market at the country or regional level is the prerequisite here. Also, it is important for the GCC countries to set quantifiable carbon reduction targets, that a cap and trade system can operate under. As the cap reduces then the price of carbon will increase.

Q6. Does it make sense for a single country, like the UAE or Bahrain, to introduce carbon markets locally?

- The emission trading scheme's efficiency is dependent on the number of participants, volume of credits and size of the emissions reduction targets. Therefore, the cooperation of countries from the same region could help to create a liquid and active market.
- Alberta (province in Canada) did so it can work, depending on design.

Q7. What do the panellists think of the prospects of voluntary carbon markets in the GCC?

- Energy price and regulatory reforms would need to create incentives for asset diversification with strong mitigation co-benefits. Without that the demand may be weak driven mainly by PR
- Agree. Offsets markets need a couple of things to be effective. 1. Clear protocols- measurable, reportable, verifiable. 2. A registry that is properly regulated. 3. A price driver that signals increasing value of the credit over time

Q8. How would you describe carbon markets in simple few sentences to someone who does not have any technical background? Who are the main buyers and sellers? Are these only governments or do we have private sector markets?

- You can find a simple description of carbon pricing here: <https://www.carbonpricingleadership.org/what>

Q9. How many years are the credits applicable after installation of a green tech? Are carbon credits harvested in UAE / India marketable internationally?

- It depends on the market and standard/program used. Credits typically do not expire, but there are sometimes unit vintage and start date limitations depending on the technology, program and location. A number of existing projects are located in these regions, generating both voluntary, CDM and CORSIA (aviation)-eligible credits.

Q10. How should one reconcile the lack of carbon prices in the GCC with the hope for CCS in the region that many people describe?

- Realizing CCUS at scale in the region (or anywhere else) will prove challenging without a stable and growing price on carbon - there needs to be a financial/compliance value associated w/ the tonnes captured/stored/used. Numerous policy and financial levers will be required for CCUS, but carbon pricing is an important one. Look at Canada experience and innovations with carbon pricing and CCUS.

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- CCS is so incredibly expensive so it needs a few conditions to move beyond pipe dream or political talking point.
- Alberta has two projects dating back a decade or so in development... there is experience here with it and my view is there are lower cost abatement options....

Q11. We have installed a solar plant in UAE in 2017 - can we apply and get carbon credit certificate to help the UAE and our company?

- The project cannot be registered by the main emission reduction standards, like CDM, Verra, Gold Standard.

Q12. Aside from consistently ensuring efficient use of resources (both non-renewable and renewable), what role do private sector organizations play in supporting development of a carbon market? Either in general or specific to UAE/GCC.

- We have a carbon pricing working group for the GCC. Also, the taskforce that Chris Leeds mentioned is relevant here: <https://www.reuters.com/article/us-climate-change-offsets-idUSKBN25T24M>

Q13. What do you see as the best / most effective way to avoid double-counting in carbon markets?

- There is a need for robust accounting rules as being negotiated under article 6 for international carbon markets addressing all generation and use of credits
- The following extra guidance was provided: (1) Clear offset protocols that are used elsewhere, to ensure firms are working on a level playing field; (2) A properly regulated registry; (3) Ability to enforce measuring, reporting, verification; (4) The right kind of regulatory mechanisms, credit vintaging, expiration period. These aspects can be complicated.
- Alberta has learned all these lessons - some of them the hard way- with their self-contained market over the past decade.

Q14. What would be the recommended approach of creating a carbon market for the GCC area? Would it be one market per country, or sectors level across the GCC?

- There are certainly experiences from the EU, but GCC should also look at experience from North America in carbon market design and collaboration, namely Western Climate Initiative (Quebec, California, and now small Nova Scotia) and then how Canada stitched together its fragmented carbon pricing region with common MRV, common or compatible registries/tracking systems, common benchmarks and approaches to competitiveness, when/where possible common offset protocols. Establishing model rules and common foundational design/infrastructure will enable countries to align (at first) and then hopefully enable full or partial market linkages.
- World Bank PMR and ICAP are both great resources.
- GCC has huge potential for a strong carbon market collaborative.

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Q15. Wow - for a province with a leading high-performing CCS project (and often promotes it), that is quite a statement. Some applications for CCS can cost less than \$40/tonne and, for the "hard to abate" industrial activities that do not have a lot of abatement options, CCS can be very competitive.

- It is a good project but still very expensive because it was first generation. There are much smaller CCS options now, more economic.

Q16. Has the Saudi Arabian government allowed Net Metering for Industries to take advantage of installing Fuel efficient / solar plants?

- It allows it for small scale projects up to 1MW: <https://www.pv-magazine.com/2017/08/10/saudi-arabia-issues-net-metering-scheme-for-small-scale-solar/>

Q17. is there a specific roadmap with milestones for the GCC carbon market? When can one expect to hear about the initial framework? What is the plan for carbon pricing in GCC?

- There is not one yet, but certainly one that could be worked out. See answer to Q11.

Q18. With all the renewable projects which will occur in the GCC, isn't there a risk that the related carbon credits or especially IRECs (International Renewable Energy Certificates) will be traded at a very low price?

- The price of a carbon credits and IRECs is depend on the balance of international supply and demand. As the focus on the climate change and renewable energy is continuously growing, we may expect a higher demand, other hand the number of the new renewable projects will be increase also.

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