



International Coordination Mechanisms for Climate Change Mitigation

A product of the Helsinki Principle 3 workstream

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Authors and Acknowledgements

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Foreword

Multilateral approaches to carbon pricing were discussed in depth in 2022 at Ministerial and Sherpa level. The global energy crisis, the need to speed up green transition, and enhanced interest on carbon pricing reforms in recent years have further increased the relevance of examining international approaches. Even though the proportion of emissions covered by carbon pricing has increased in recent years, there is room to do more to achieve the 1.5 ambition, in coverage and in price level. The need to scale up carbon pricing while still acknowledging countries' specific circumstances is important.

While the Coalition is not expected to play a direct role in the negotiation of mitigation targets or policies at a global level, it provides an important forum for technical and political discussions of the different options for scaling up climate ambition, to help countries understand each other's perspectives and international context of actions. This is very crucial for Finance Ministries, whose involvement in designing carbon pricing actions is necessary.

In line with the Helsinki Principles, the Coalition supports the efforts ongoing to advance climate action at national and international level, while not striving for coordinated policies among its Member Countries. It builds on collaborative approach, where convergence stems from raising awareness, mutual support, and cooperation. We welcome the efforts of our Institutional Partners, especially the IMF, WB and the OECD in the area, and their contribution to the Coalition.

This note draws from the learnings of these rich discussions and is intended to help inform further consideration of these issues within the Coalition. The Coalition is grateful for Simon Black, Ian Parry, and James Roaf of the International Monetary Fund and Tatiana Falcão of the World Bank for the preparation of this report and for their contribution to the work of the Helsinki Principle 3 on the whole.

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Report Background

The Coalition of Finance Ministers for Climate Action (the “Coalition”) has identified carbon pricing as a key area of work. Member countries consider carbon pricing instruments available to them as very relevant in helping to meet climate objectives. Moreover, it seems that renewed Nationally Determined Contribution targets under the Paris Agreement and the need to foster economic recovery following the Covid-19 crisis have raised interest in carbon pricing reforms.

Against that backdrop, the Coalition has devoted significant time to exploring the main instruments available to countries wishing to pursue an explicit carbon pricing approach. By focusing on nationally-based carbon pricing approaches, the Coalition shared country experiences implementing carbon taxes, levies or charges (hereinafter generally referred to as carbon taxes) and emissions trading schemes (ETSs), while also considering the adoption of hybrid approaches, which benefit from the combination of both explicit carbon pricing instruments, and also the combination of carbon pricing with regulations and other non-pricing mitigation approaches. Key observations from these discussions are that taking into account the international aspects and approaches of other countries, and learning from the experiences of other countries, are very relevant in designing and implementing reforms.

The Coalition discussed various proposals for the adoption of multilateral approaches to carbon pricing in two pre-Ministerial workshops and at the 7th Ministerial Meeting on April 19, 2022. In particular, the European Union’s proposal for a Carbon Border Adjustment Mechanism, Germany’s proposal for the establishment of a Climate Club, and the IMF staff’s proposal for an International Carbon Price Floor have been examined. The Coalition also acknowledges the relevance of other initiatives, especially the recently launched OECD’s Inclusive Forum on Climate Mitigation Approaches. The workshops attracted a record number of attendees, demonstrating Members’ interest in those topics despite the challenges brought about by the new macro-economic and geopolitical environment.

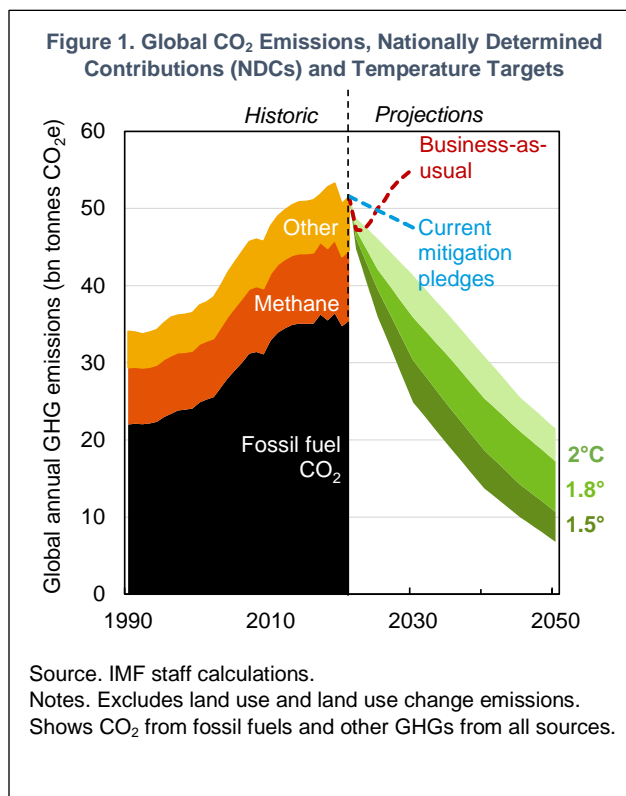
1) Introduction: The Need for Complementary Arrangements to Support the Paris Agreement

Getting on track with containing global warming to 1.5-2°C requires reducing global carbon dioxide (CO₂) and other greenhouse gas (GHG) emissions 25-50 percent below 2021 levels by 2030 or 30-60 percent below “business as usual” (BAU)¹ levels in 2030 (Figure 1). Failure to achieve these reductions will risk temperature goals being put irreversibly beyond reach.

The 2015 Paris Agreement has played a vital role in achieving common agreement on global temperature goals and in recognizing that all countries have joint responsibility to achieve these goals. Since the Paris Agreement, around 135 countries, covering 90 percent of global GHGs, have set or proposed zero net emissions targets for around mid-century and about one third of countries have strengthened mitigation pledges for 2030 in their Nationally Determined Contributions (NDCs). However there remains a large gap in near-term global mitigation ambition. Even if fully achieved (which is far from certain), current pledges would cut global emissions by about two-thirds of the reductions consistent with a 2°C emissions pathway and only one third of the reductions consistent with a 1.5°C pathway (Figure 1). Worse, there is an even larger gap in global mitigation policy.

Measures equivalent to a global carbon price exceeding \$75 per tonne are needed by 2030 to align global emissions with keeping warming below 2°C. However the global average carbon price is currently only \$6 per ton.²

Under the Paris framework there are two key factors that create challenges to aggressively scale up global mitigation ambition and policy. First, the Paris Agreement does not contain any provisions for determining temperature-aligned ambition allocations, given the large number of parties (193) to the Agreement negotiating over separate and self-defined parameters by which to measure emissions reductions. Second, when countries are acting unilaterally it can be difficult to aggressively scale up mitigation policy due to concerns about impacts on their industrial competitiveness and “carbon



¹ The BAU scenario is one with no new, or tightening of existing, mitigation policies.

² Updated from Black and others (2021).

leakage” as well as policy uncertainty over policy actions in other countries.³ Additional international coordination could complement and reinforce the Paris Agreement.

2) Objectives of Coordination Mechanisms

Recent proposals for complementary coordination mechanisms for mitigation policies have reflected several interrelated objectives:

- Achieving **overall global emissions reductions** sufficient to get on track for Paris temperature goals;
- Avoiding **competitiveness losses and carbon leakage** arising from cross-country differences in carbon pricing or other mitigation policies;
- Seeking an **equitable distribution of mitigation effort** across countries given their varying circumstances, and;
- Providing a **framework for climate finance flows** to incentivize mitigation and compensate for transitional costs of mitigation policies by developing countries.

The proposals for coordination vary in the priority they place on these different objectives – between which there can be tradeoffs.

³ According to the OECD, "direct" carbon leakage occurs as a result of a reallocation of production capacity in response to more stringent climate policies, such as carbon pricing, in a country or region. This may cause, on the one hand, some economic agents to relocate their production (in particular through their investments abroad) to countries or regions with lower climate constraints and may result, on the other hand, in a loss of market share on domestic and third-country markets to the benefit of foreign producers subject to less stringent climate policies (and which are potentially more emission-intensive). This will have the impact of reducing the effectiveness of the domestic climate policy.

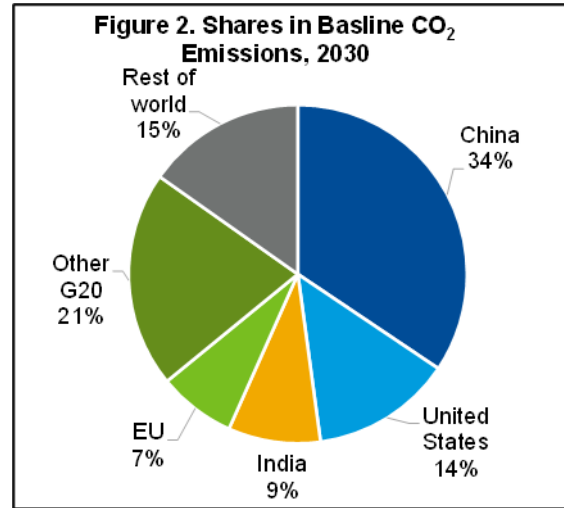
"Indirect" leakage reflects the impact of the reduction in the price of fossil fuels on international markets. All things being equal, this reduction is explained by a fall in demand for fossil fuels in countries or regions implementing more ambitious climate policies (aside from the aforementioned effect of reallocation of production). The reduction in the price of fossil fuels thus stimulates their consumption in countries and regions not subject to such climate constraints. See OECD (2020), *Climate Policy Leadership in an Interconnected World: What Role for Border Carbon Adjustments?*

3. Key Design Elements of Coordination Mechanisms

Membership and coverage

Approaches may differ in the number of parties, and whether they span similar or differing country types.

- **From a climate perspective, it is important to include all of the large emitters.** The highly skewed distribution of emissions means only a few parties are needed to cover a large portion of global GHGs. For example, China, the EU, India, and the US account for 64 percent of global baseline CO₂ emissions in 2030, while the Group of Twenty (G20) including the EU account for 85 percent (Figure 2). This group includes quite different types of economies, including high-, middle- and low-income countries.



- **Other objectives could lead to different groupings.** A club of economies with high ambition and concerns about carbon leakage might group together with a common carbon price and an external border carbon adjustment (BCA) mechanism.⁴ Groupings of similar economies can be envisaged, such as of low-income countries, fossil-fuel producers, or countries in a region.
- **A further issue is the scope of emissions covered.** For maximum effectiveness in mitigation, broad coverage of both GHGs and sectors would be desired, although this may complicate efforts. From a competitiveness and carbon leakage perspective, the most important sectors would be the so-called “Energy Intensive-Trade Exposed” (EITE) industries, such as steel and cement. From an effectiveness and practical perspective, the power and industry sectors might be covered at least initially as they account for the huge bulk of low-cost mitigation opportunities in the near and medium term⁵ and emissions from these sectors are already priced in many countries. Also, some types of emissions (e.g. land use, or methane) might point to different country coverage or different coordination frameworks than “core” fossil-fuel CO₂ emissions.

Alternative Mitigation Policies

Coordination schemes may involve common policies (notably, a common approach to carbon pricing e.g. common carbon price or set of price floors) or accommodate different approaches.

- Carbon pricing is overall the most efficient mitigation policy but can be politically difficult to implement at a sufficiently high price to deliver sufficient emissions reduction and needs to be supplemented by sectoral policies and public investments or subsidies. In practice countries implement a range of policies – ideally with carbon pricing as the centerpiece.

⁴ A BCA imposes charges on imports based on the CO₂ and other GHGs measures in CO₂ equivalents, emitted during their production, and may include rebates for domestic exports.

⁵ Parry and others (2022), Figure 7.

- In general, carbon pricing places a higher cost on producers than regulations and other policies which do not impose charges on firms' remaining⁶ emissions. So even if alternative policies have the same overall effect on a country's emissions, they likely have different implications for competitiveness and carbon leakage.
- In a scheme prioritizing global emissions cuts only, so long as a sufficient global coverage is achieved, it should not matter which policies countries take.
- However, if there are also concerns about competitiveness, acceptability or carbon leakage – including in arrangements with only partial country coverage – policy divergence can be important:
 - Schemes could involve a common approach to among members, perhaps with an external BCA to limit leakage to third countries.
 - Or schemes could involve BCAs between members with different policies, plus (where appropriate) an external BCA covering trade with nonmembers.
- Schemes involving a range of mitigation policies are likely to require a methodology for analyzing and comparing expected emissions reductions across countries and policies.
- In a comprehensive approach the impact of complementary mitigation policies should also be assessed according to its fiscal and distributive implications.

Parameters

As noted above, a challenge with the Paris Agreement is the multitude of metrics countries use to define the emissions reductions in their NDCs (e.g. cuts compared to various specified years, compared to BAU estimates made by different models, or in emissions intensity of GDP). There is an incentive for countries to report using a metric under which their ambition scores relatively better compared to others – for example a country that is growing strongly might prefer to measure by emissions intensity of GDP, or one with high historic emissions might prefer to specify cuts compared to that period. Similarly, comparability is hampered by differing coverage of sectors or types of GHG.

- Coordination schemes could be based on a common measure and coverage of emissions reduction. Some also see an interest in being able to relate emissions to a policy measure, notably the carbon price. The development of a “carbon price equivalent” of non-pricing policies (for example, regulatory measures like efficiency standards) could also inform in the medium term this policy debate. Linking to a policy measure could give an indication of the degree of effort represented by the mitigation strategy but leads to important challenges. Developing a methodology to calculate the carbon price equivalent can be complex to implement in a way that is transparent and non-discriminatory. It raises several methodological issues, such as the scope of policies to include, and how to disentangle the individual contribution of measures to emissions reductions, the choice of the BAU scenario or

⁶ Remaining emissions refer to emissions that remains after the incentive effect of non-pricing policies (e.g. emissions remaining after the implementation of an emission performance standard).

methodologies to attribute emission reductions to policies, including departing to external factors (energy prices, technology costs, exchange rates, etc.) and country-specificities. Agreeing on a single methodology that is acceptable to all countries could prove to be a difficult exercise.

- Relatedly, schemes may be based on statements of ambition (such as plans to reduce emissions by 2030), or on actual implementation of specific policies. In general, it may be easier to negotiate on ambition but harder to monitor and keep on track, while negotiating on implementation would be more challenging to agree up front but would have greater credibility and address competitiveness and carbon leakage concerns with more certainty.
- Emissions could be measured on a production (or, in taxation parlance, “origin”) basis, or a consumption (or “destination”) basis. In general countries that are net importers of emissions-intensive goods (often advanced countries) would have higher consumption emissions than production emissions, while the reverse would be the case for countries that are net exporters of such goods. Coordination frameworks based on production emissions would be consistent with the Paris Agreement, under which countries are responsible for emissions that physically take place in their jurisdiction. Coordination based on consumption emissions might imply that countries adopt border carbon adjustment mechanisms, to be able to account for emissions “embodied” in imported goods. It would likely also be more administratively challenging since countries would need to monitor embodied emissions in both imports and exports. As with most BCA proposals so far, this may point to focusing on EITE industries only.
- In discussing parameters and coverage, it is important to bear in mind that while some metrics may appear to favor one group of countries over another (for example, emissions/GDP for fast-growing economies, or consumption-based emissions for net exporters of emissions-intensive goods), this does not necessarily mean that a coordination scheme using this metric will automatically give them a better deal. Whichever metric is used, the degree of ambition across participating countries depends on the *targets* that are set. Different country circumstances would need to be taken into account in defining these targets, which could vary across country groups or by individual country.

Equity and Incentives

Schemes involving different country types – especially developing countries, or oil exporters – need to consider how mitigation effort is distributed, and whether compensatory transfers should be involved to ease the transition and encourage participation.

- The Paris Agreement recognizes that countries’ mitigation targets and measures will differ based on their capabilities and national circumstances. Other things equal, this could imply that some developing countries will take longer to reach peak greenhouse gas emissions and face specific challenges in the implementation of their mitigation policies.
- The Paris Agreement states that developed countries should provide financial resources to assist developing country Parties with respect to both mitigation and adaptation. Though there is some agreement on levels provided (under the \$100bn goal), there has been little agreement on the specifics of these flows, including the extent that they should be on concessional or grant terms (i.e., transfers), rather than at market rates, to improve access to climate finance for the most vulnerable

Parties. One aspect, as mentioned in the SCF report dedicated to the needs and priorities of developing countries⁷, is to improve access to robust and exhaustive data on the financial needs associated with countries' NDCs. One other aspect is that the \$100bn target has not been defined in complementarity to article 2.1c, the third long-term objective of the Paris Agreement. Though making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development is the third long-term objective of the Paris Agreement and could help attract a higher share of international finance to scale up climate investments and to remove finance flows from activities which are detrimental to climate action, discussions have yet to happen on how to operationalize this objective.

- Suggestions for transfers have included basing them on estimated abatement costs of mitigation, or on deviations from global average emissions per capita (so high-emitting countries would make transfers to low-emitting ones, providing an incentive on the latter to join the scheme, and on both to mitigate).
- In practice, schemes among different country types are likely to involve a balance of differentiated mitigation policies and transfers.

Linking carbon markets

Schemes could also be based on linking carbon pricing mechanisms, especially ETSs which could have common emissions certificates (and therefore common carbon prices). The linking of the California and Quebec ETSs provides a limited-scale example.

Administration

A coordination scheme with sufficient global coverage would need to be able to be implemented by all major emitters. This is particularly relevant for coordination based on use of carbon pricing:

- Carbon taxes, which are generally under the purview of finance ministries, would be straightforward to administer in developing countries, at least where they build off existing capacity for fuel tax collection. These taxes can generally be integrated at upstream level (on extraction or upon import), or midstream (that is, after fuel refining and processing) into collection procedures for existing fuel taxes and extended to other fossil fuels—much of the legal and administrative infrastructure needed for carbon taxes already exists. Indeed, fuel taxes are well established in over 160 countries and are among the easiest of all taxes to collect—changes to rates or coverage can often be made as part of a budget and related finance bill.
- Emissions trading systems (ETSs), which are generally under the purview of environment ministries, typically require more sophisticated administration. These schemes are usually applied downstream to large stationary sources in the power and industrial sector, though they can also be extended midstream to transportation and building fuel suppliers. New capacity is required for ETSs to monitor downstream emissions and supervise allowance registries and market trading. Indeed, ETSs may not

⁷ [Determination of the needs of developing country Parties | UNFCCC](#)

be viable in countries with limited institutional capacity—as is the case with some developing countries—or where the permit trading market would be concentrated due to a limited number of firms.

4) Comparing Alternative Coordination Regimes

Table 1 draws on the discussion above to compare a generalized classification of recent proposals for coordination regimes:

- **Paris Agreement process by itself:** this reflects the current international framework where all countries are pledging ambition and implementing mitigation policy in a unilateral fashion.
- **Common price floor:** a coalition of willing countries all imposing carbon pricing at the same level and coverage. This regime provides little scope for or does not aim by itself to address international equity issues. It therefore seems unlikely to achieve needed levels of global emissions reductions.
- **Differentiated carbon price floor:** this would complement the Paris Agreement’s framework with a coordination regime focused on a small number of large emitters with (i) differentiated carbon pricing requirements according to countries’ level of development; and (ii) accommodation of alternatives to carbon pricing that yield equivalent emissions reductions (via the development of a measure of carbon price equivalence)⁸. Transfers from advanced to developing countries could add to incentives to participate and help meet transition costs. The IMF Staff proposal for an International Carbon Price Floor (ICPF) fleshes out and analyzes this model (Box 1). The ICPF is explicitly aimed at ensuring participation of all large emitters. Differentiated carbon price floors would, however, not entirely address the risks of carbon leakage.
- **The German government’s proposed Climate Club:**⁹ this has been endorsed by the G7 in December 2022, and a Climate Club Task Force launched to work on the governance structure of the climate club, expected to be formalized by COP28. The informal group will be hosted by the secretariat of the OECD and the IEA. The objective of the club is to contribute to raising climate action globally by facilitating a near zero emission industrial production transition, by providing a high-level intergovernmental forum for discussion of key climate issues. The framework endorsed by the G7 is built on top of 3 pillars, aiming to (i) advance ambitious and transparent climate change mitigation policies (ii) transform industries by enabling conditions for substantial sectoral industry

⁸ The IMF and OECD have discussed methodologies for assessing carbon price equivalence of alternative mitigation policies (joint report, “Delivering Climate-Change Mitigation under Diverse National Policy Approaches”, 2022) and for further discussion of the challenges involved see LSE, “Collaborating and Delivering on Climate Action through a Climate Club: An independent report to the G7”, (N. Stern and H. P. Lankes), October 2022, available at: <https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2022/10/Collaborating-and-delivering-on-climate-action-through-a-Climite-Club.pdf>.

⁹ G7, Terms of Reference for the Climate Club, 12 December 2022, available at: <https://www.g7germany.de/resource/blob/974430/2153140/a04dde2adecf0ddd38cb9829a99c322d/2022-12-12-g7-erklarung-data.pdf?download=1>

decarbonization by discussing and aiming to align, as far as possible, methodologies, standards, sectoral strategies and milestones and expanding markets for green industrial products, and (iii) Boost international climate cooperation and partnerships by enhancing multi- and bilateral cooperation between members in the areas of cooperation identified under pillars one and two. The climate club is open for participation by all climate-ambitious countries.

- **The OECD Inclusive Forum on Climate Mitigation Approaches:** this aims to assess price-based and other carbon mitigation approaches and produce a database of policies, by working under two modules. The first will take stock of mitigation policies and the amount of emissions to which they apply. The second will examine the effectiveness of mitigation approaches and aim to apply a common approach to assessing effectiveness internationally. The forum does not intend to set common standards, but to set best practices to be employed nationally.¹⁰
- **Global ETS carbon market:** involves linking of existing carbon pricing systems, notably ETSs. These proposals may have some benefits in concentrating abatement to least-cost locations but are highly unlikely to achieve global emissions goals given low overall emissions coverage. It would be difficult to accommodate large emitters that are using carbon taxes or non-pricing instruments, and as with the pure carbon price floor, it is difficult to address equity issues. A concrete allocation of emissions caps consistent with delivering the needed reductions in global emissions, along with specific policies for countries without ETSs, would need to be agreed. There are also practical constraints on scaling up such agreements rapidly, including compatibility across markets and the need for common governance arrangements (since policy actions taking in one market will directly affect the other markets).
- **Voluntary Carbon Markets:** Involves the creation of an environment for the offsetting of emissions outside a regulatory regime, through the administration of private projects that are independently verified by an accreditation company. The negotiation of Article 6 of the Paris Agreement will determine how national voluntary markets will interact internationally to create a multilateral mechanism, as directed by Article 6.4 of the Paris Agreement. However, Article 6 negotiations are only expected to begin in 2028 and end in 2030 (as per the Glasgow Pact). Therefore, there is still great uncertainty concerning the administration of these markets, and the standards used to negotiate credits internationally.

¹⁰ OECD, OECD Secretary General Report to G20 Finance Ministers and Central Bank Governors on the Establishment of the Inclusive Forum on Carbon Mitigation Approaches, Indonesia, October 2022, available at: https://www.oecd.org/g20/topics/international-taxation/oecd-secretary-general-report-g20-finance-ministers-central-bank-governors-establishment-ifcma-indonesia-october-2022.pdf?utm_source=Adestra&utm_medium=email&utm_content=Read%20the%20report&utm_campaign=Tax%20News%20Alert%2013-10-2022&utm_term=ctp

Table 1. Comparing Regimes for Scaling up Global Mitigation Policy by 2030

Metric		Paris process alone	Supplementary Coordination Arrangement			
			Price Floor (with annual ramp up)		Country-level annual emissions targets	Global carbon market
			Pure	Differentiated approaches (allowing differential pricing and equivalent approaches)		
Ease of Negotiating Policy Action	Number/type of parties	Large number of diverse parties; unilateral submissions	Likely to be limited group of like-minded countries	Small but diverse group of large emitters	Small but diverse group of large emitters	Limited to countries with ETSs, unless means found to include others
	Number/type of parameters	Large range of parameters (defined by each party)	Focused negotiation over single price floor	Focused negotiation over small set of prices for broad country classifications	Negotiation over country-specific targets more complex than for price floor	Negotiation over initial allocation of emissions permits and potentially "exchange rates" between schemes
Addressing Obstacles to Scaling up Policy Action	Coverage of global emissions	Near-universal	Limited to countries prepared to adopt the uniform carbon price	Critical mass sufficient to achieve temperature goals (if large emitters participate)	Critical mass sufficient to achieve temperature goals (if large emitters participate)	Limited to countries with ETSs, unless means found to include others
	Free riding (concern about others' ambition and policy credibility)	High risk countries will not: (1) set sufficiently ambitious targets; (2) achieve targets	Similar countries aids trust, but concerns remain about nonparticipants	Small group provides pressure for adequate ambition and meeting pledges	Small group provides pressure for adequate ambition and meeting pledges	Common policy aids trust, but concerns remain about nonparticipants
	Competitiveness/ carbon leakage concerns	Only addressed by unilateral measures—pressure for inefficient system of unilateral BCAs	Addressed for members of group, BCA likely required externally	Partially addressed (allows equivalence for non price measures, carbon leakages depending on gaps in pricing between countries)	Weakly addressed (cost increases vary by country depending on target and policy instruments)	Addressed for members of group, BCA likely required externally
	International equity	Differentiated responsibilities difficult to compare, additionality of \$100 billion finance and who gets it unclear	Requires large transfers to incentivize EMDC participation	Allows differentiated floors and clarity on transfer mechanisms	Allows differentiated targets and clarity on transfer mechanisms	Could be addressed through permit exchange rates

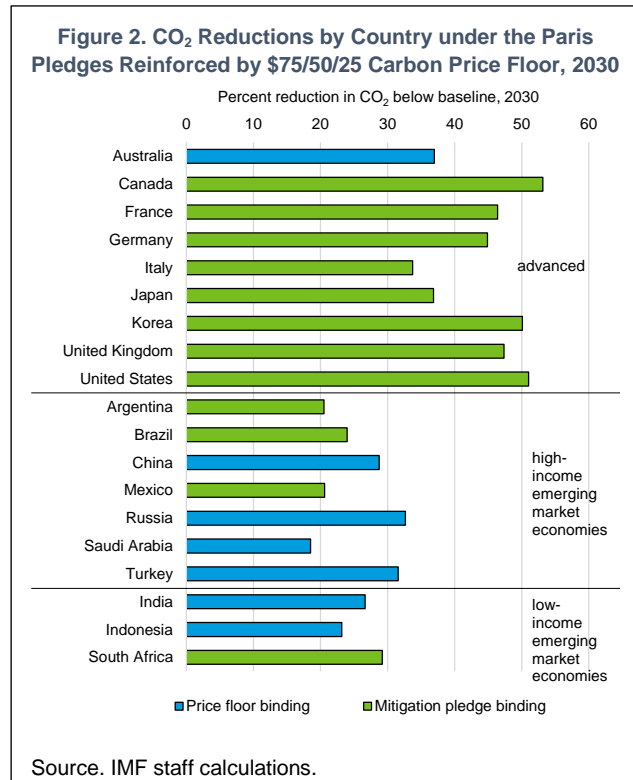
Box 1: IMF Staff Proposal for an International Carbon Price Floor (ICPF)

The ICPF recognizes the “differentiated responsibilities” of the Paris Agreement with illustrative floor prices by 2030 or \$75 per ton for advanced, \$50 for middle-income, and \$25 for low-income countries. With just four participants in the price floor—China, India, EU, and US—this would be sufficient to get global CO₂ emissions on track to keep global warming below 2°C. This assumes other G20 countries meet their existing 2030 mitigation pledges and countries in the coordination agreement meet whichever is the more stringent of the pricing requirement and their mitigation pledge.¹¹

Figure 2 shows the emissions reductions that would ensue from the full G20 joining the scheme. Most advanced countries would cut their emissions around 40-50 percent below BAU levels in 2030, while EMDCs would be cutting their emissions 20-30 percent below BAU levels. For most advanced countries, their Paris mitigation pledge is more stringent than the pricing requirement while the opposite applies for the majority of EMDCs.

Equity issues can be further addressed by combining the arrangement with a transparent mechanism to provide financial or technological assistance to low-income participants.

The proposal accommodates countries for which carbon pricing is difficult for domestic political economy or other reasons, so long as they achieve through other measures the same emissions outcome as they would have achieved had they met the price floor. Robust methodologies are needed for mapping the impacts of carbon pricing and other mitigation instruments like fuel taxes, energy efficiency and emission rate standards, feebates, and clean technology subsidies into their GHG reductions.¹² However, such methodologies can be complex to develop and implement.



Finally, in the absence of an international pricing agreement, unilaterally imposed BCAs are likely to emerge as some jurisdictions move ahead with more ambitious carbon pricing than others. BCAs can help facilitate more ambitious policies by preserving their effectiveness and addressing related carbon leakage concerns. But in terms of direct impacts on emissions reductions, BCAs are a second-best instrument when compared to coordinated pricing regimes at scaling up global mitigation. Whether

¹¹ Black and others (2021), Chateau and others (2022), Parry and others (2021),

¹² Black and others (2022).

BCAs should be included in coordination schemes will depend on their design and negotiation. An external BCA applied to nonparticipants can provide some incentive for countries to join the pricing regime and avoid BCAs, but could complicate negotiation over setting up the pricing regime and may not be needed if the major trading partners participate in the regime. There could also be a case for BCAs between scheme participants, depending on divergence in the stringency of mitigation policies and estimates of resulting carbon leakage.

5) Concluding remarks

The Paris Agreement was a milestone in agreeing joint responsibility across all countries to address global warming. However, countries have not yet adequately narrowed the gap between national targets and emissions cuts needed to stabilize the climate. Proposals have therefore emerged for ‘mini-lateral’ complementary mechanisms to reinforce the Paris Agreement. Large emitting countries should have strong incentives to join an international coordination regime to accelerate emissions cuts. Other countries would likely follow the lead of the large emitters in the pricing regime. Lastly, participants would also enjoy significant domestic welfare benefits from transitioning away from fossil fuels, particularly reductions in premature deaths from local air pollution, and security benefits from renewables and other more reliable domestic energy sources.

6) Approach of the Coalition of Finance Ministers for Climate Action

Multilateral approaches to carbon pricing, including ETSs, were discussed in depth during two pre-Ministerial workshops organized in advance of the Coalition’s Ministerial meeting held on April 19, 2022 on the topic of the energy crisis and carbon pricing. In addition, Members gathered for open discussions on the issue of public support for carbon taxation in the Republic of Korea and France, on the conceptualization and quantification of fossil fuel subsidies in the Netherlands, and on the Pan-Canadian approach to carbon pricing. The Helsinki Principle 3 workstream also organized for the first time in 2022 a peer-to-peer capacity development workshop on carbon taxation between Rwanda and Sweden.

The Coalition is not expected to play a direct role in the negotiation of mitigation targets or policies at a global level. However, owing to its broad membership across developed countries, emerging market economies, and developing countries, it can provide an important forum for technical and political discussions of the different options for scaling up mitigation ambition, to help countries understand each other’s perspectives and priorities and to build consensus around common objectives.

In line with the Helsinki Principles, the Coalition supports the efforts ongoing to advance climate action at national and international level. However, the Coalition does not strive to achieve coordinated policies among its Member Countries. It builds on collaborative approach, where convergence stems from raising awareness, mutual support and co-operation. The Coalition continues to support the Member countries’ efforts to design and implement climate related reforms, including on carbon pricing, through developing analysis and tools, defining best practices, learning as well as sharing of experiences.

Following the Coalition’s discussion in workshops and at the Ministerial meetings, the following general observations can be made on carbon pricing and the above-described international approaches:

- Carbon pricing is a key economic policy tool to address climate change; it can be part of each country’s policy mix - depending on country-specific circumstances and transition strategies.
- Multilateral and regional approaches to climate mitigation policies and ways to assess carbon leakage risks should be open, collaborative, and inclusive.
- National and international implications - such as carbon leakage and potential negative spillover effects - and distributional impacts should be carefully considered in designing such reforms.

- The political challenges of introducing carbon pricing and subsidy reforms, as shared by Member Countries in the discussions, underlined the importance of a comprehensive and adaptive approach, the need for different tools to be taken into account in designing reforms, and the importance of analyzing distributional and equity impacts involving relevant stakeholders.
- The Coalition continues to hold follow-up meetings with economic and fiscal policymakers and with stakeholders to analyze the mitigation impacts of different policy tools—and their interactions—in more detail.
- As next steps, the Coalition continues to study international approaches, including especially Border Carbon Adjustment Mechanisms; Voluntary Carbon Markets; and support Members in designing carbon pricing reforms through training in cooperation with the Institutional Partners; and engage in dialogues with relevant stakeholders.

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