



Submission by the International Carbon Action Partnership (ICAP) on the use of market mechanisms to meet intended nationally determined contributions (INDCs)

About ICAP

ICAP is a multilateral forum for jurisdictions that have implemented, or are planning to implement emissions trading systems (ETS). Founded in 2007, the partnership shares best practices in emissions trading and discusses ETS design elements with the long-term goal of creating a well-functioning global carbon market through linking different systems. ICAP currently has [31 members and 4 observers](#). The partnership not only brings representatives from different national systems together but also policymakers from city-level and statewide systems

ICAP's work focuses on three main pillars: Technical dialogue, capacity building and knowledge sharing. It facilitates a technical dialogue among its members in order to exchange lessons learned on ETS and the way forward to a global carbon market; a dedicated working group focuses on the issue of linking ETS. Since 2009, ICAP has also held capacity building courses on ETS for developing and emerging economies. Lastly, ICAP also acts as an ETS knowledge hub, sharing knowledge and the latest news on emissions trading around the world.

Use of market mechanisms is spreading but needs a global framework

ICAP members are convinced that market mechanisms, particularly emissions trading, are an effective way for countries to take climate action. They enable emitters to reduce emissions where it is most cost-effective, lowering the cost for businesses and society as a whole. With 17 ETS now operating on four continents, emissions trading is spreading around the world. More broadly, market mechanisms are being implemented or considered by many jurisdictions as a cost-effective approach to reduce their greenhouse gas emissions. Given these developments, **ICAP advocates for a Paris Agreement that supports Parties in using market mechanisms on a voluntary basis to help achieve their INDCs**. This could facilitate the future linking of ETS.

A Paris Agreement which includes provisions for Parties to participate in the international carbon market on a voluntary basis could give guidance as to how market mechanisms can be used to help meet INDCs. As emphasized in the principles below, such provisions must operate within a clear accounting framework to avoid double counting and claiming, which would undermine the INDCs of other Parties. Using market mechanisms gives Parties increased flexibility in reaching their INDC targets, potentially encouraging them to take on more ambitious emissions reductions. Provisions on the use of market mechanisms in a Paris Agreement would not affect jurisdictions', including subnationals', domestic market mechanisms or other climate policy choices, which would remain an issue of national sovereignty.



Ambitious INDCs coupled with clear provisions for reporting and accounting for progress, and mechanisms for increasing ambition represent important elements to provide a clear framework for markets. A positive endorsement of the carbon market as an instrument of domestic policy could also support the further development, implementation and ultimately linking of ETS, which is one of the key objectives of ICAP. Linking of ETS allows for increased access to abatement options, reduces carbon leakage risks and enhances market liquidity. It can also provide an important signal for enhanced political cooperation and ambition.

A clear reference to international carbon markets in the Paris Agreement and a decision in Paris, that is further developed in subsequent decisions, together with clear criteria to define real, permanent, additional and verified emissions reductions would ensure environmental integrity when emission reductions are transferred between Parties.

Four guiding principles for the Paris Agreement

The Paris Agreement should:

Support Parties in transferring part of their mitigation outcomes to other Parties for compliance. An Agreement that supports Parties in cooperating with one another will lead to greater emissions reductions than can be achieved individually. Moreover, it encourages Parties to coordinate and link their market mechanisms, enabling them to seek out the most cost-efficient mitigation options. This may also further the creation of carbon markets around the world that are both effective and guarantee a high level of environmental integrity.

Provide for a robust accounting framework for internationally transferred mitigation outcomes. Establishing a sound and transparent accounting framework would not only ensure double counting is avoided, but build trust among Parties and facilitate the future linking of domestic mechanisms.

Encourage the development and use of robust monitoring, reporting and verification (MRV) standards. Comparable, robust MRV standards and compliance with such standards ensure that the environmental integrity of Parties' mitigation commitments is not undermined. They strengthen the transparency of Parties' efforts in achieving their INDCs, build confidence in the international climate change process, and increase investor confidence in carbon markets. The formulation of such standards could build upon existing standards established under the Kyoto Protocol and could be elaborated upon in subsequent COPs or through technical bodies.

Build upon the knowledge and institutions developed by countries and the UNFCCC. Future developments in the international climate change regime should build on the activities and institutional capacities under the Kyoto Protocol, as well as the knowledge and expertise on market mechanisms developed at the national and subnational level.