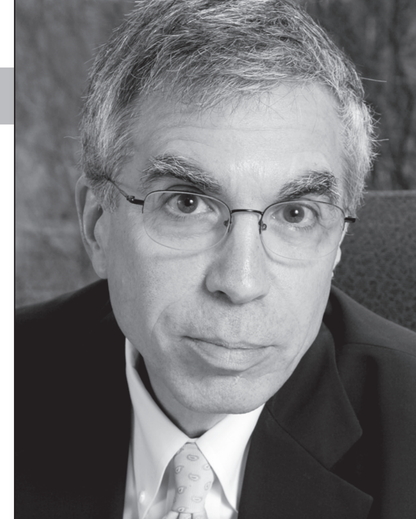
# Linkage Will Prove Essential for Ultimate Success of Paris Agreement



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The hybrid design of the Paris Agreement was key to its successful enactment in 2015, as well as its coming into force a year later. The combination consists of centralized and decentralized elements. The top-down elements include the requirement that countries state their national contributions every five years, a schedule which is binding under international law for those jurisdictions that have ratified the agreement. The key bottom-up element is the set of individual Nationally Determined Contributions (or NDCs), which are not part of the agreement itself but rather are listed in a separate registry. These are not binding under international law, but rather are left to the domestic authority of the respective parties.

It was primarily this dual structure that led to the achievement of one of two necessary conditions for ultimate success of the Paris Agreement, namely adequate scope of participation, which includes countries accounting for 97 percent of global emissions, compared with the 14 percent that are covered by the Kyoto Protocol.

But adequate participation is only one of two necessary conditions; the other is adequate collective ambition. Unfortunately, the fundamentally voluntary nature of the NDCs — which, as I noted above, is precisely what facilitated the exceptionally broad scope of participation — works against adequate ambition to address this global commons phenomenon, which is plagued by the free-rider problem.

This raises the key overall challenge that will face the negotiators in Katowice, Poland, in December at the 24th Conference of the Parties of the United Nations Framework Convention on Climate Change: What can they do to encourage countries to increase over time the ambition of their individual contributions? That is where carbon markets and cooperation among jurisdictions potentially come in.

Largely because cooperation among jurisdictions — including through carbon markets — can lower abatement costs, it may be essential for the ultimate success of the agreement. This cooperation might take the form of international linkage, where by *linkage* I mean connections among policy systems that allow emissions reduction efforts to be redistributed among those systems.

**What can negotiators do to encourage countries to increase their contributions?**

Such linkage is typically framed as between cap-and-trade systems, but regional, national, and subnational policies are and will be highly heterogeneous, including not only cap-and-trade, but offset systems, carbon taxes, performance standards, and technology standards. We already see this sort of heterogeneity within the European Union's own set of climate change policies, as well as within California's suite of climate initiatives.

The good news is that linkage among highly heterogeneous policies is eminently feasible, as I have written about previously in this column, drawing on my research with Michael Mehling of MIT and Gib Metcalf of Tufts University. The even better news is that one part of the Paris Agreement provides a potential home for such international cooperation, linkage, and carbon markets — Article 6.

Provision for markets and such cooperation is implicit in Article 6.2, which allows for approaches involving Internationally Transferred Mitigation Outcomes, which can function as an accounting mechanism for trades, exchanges, and other forms of cooperation among countries.

There are important advantages to such cooperation, including financial savings by allowing firms to take advantage of lower-cost abatement opportunities in other jurisdictions, but there are also real concerns about linkage, including distributional impacts within and across linked jurisdictions.

Thinking about the ongoing climate convention negotiations, most types of heterogeneity — of policy instruments, level of political jurisdiction, and nature of NDC targets — do not present insurmountable obstacles to linkage, but some do present real challenges, and indicate the need for specific guidance as the Paris rulebook is written. But if guidance extends much beyond basic accounting rules, then restrictive requirements could actually impede effective cooperation. True to the nature and spirit of the agreement, less can be more!

So, as the negotiations proceed, a combination of common accounting rules and an absence of restrictive conditions can accelerate linkage, allow for broader and deeper climate policy cooperation, facilitate the emergence of a robust global carbon market, and — most important — increase the latitude of the parties to scale up the ambition of their long-term emission reductions.

Whether any or all of this will come to pass, we simply do not know as of now. As usual, only time will tell.