

Proposal for an International Carbon Price Floor

21ST IEA-IETA-EPRI GHG EMISSIONS TRADING WORKSHOP
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Urgency of Near-Term Mitigation Action

Last window to keep alive 1.5-2°C is about to close

- Unless global emissions are cut 25-50% below 2019 levels by 2030
- Requires measures equivalent to > $75/ton global CO_2 price (current price is $3/ton)

Paris Agreement is working to catalyze global ambition…

- 52 countries have committed 'net-zero' emission pledges for midcentury

…but needs reinforcing to achieve required emissions reductions for 2030

- Current pledges for 2030 would cut emissions by 60% of reductions for 2°C
- No mechanism for ensuring pledges achieved

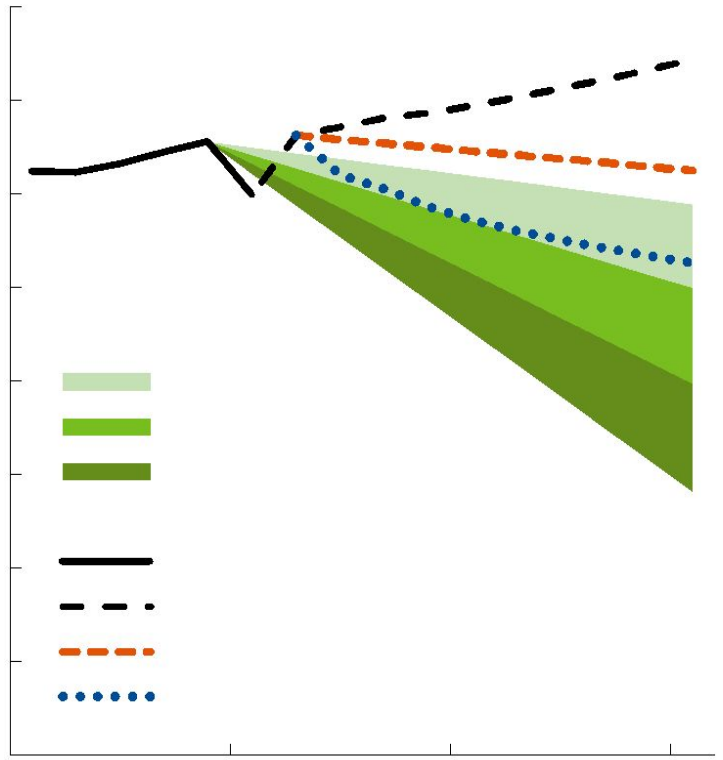
Under Paris approach two key obstacles to scaling up global mitigation

- *Ambition*: Too many parties (195) and parameters (one pledge per party)
- *Unilateral policy action*: competitiveness, uncertainty about other's actions

The reinforcing mechanism should

- Facilitate negotiation (i.e., small number of countries/transparent parameters)
- Be effective (i.e., contain a concrete plan to deliver emissions reductions)

Global CO_2 Projections and Pathways for Warming Targets



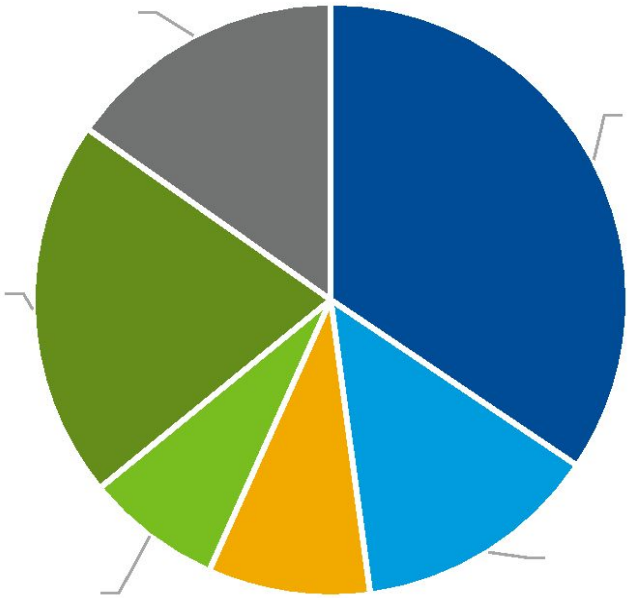
IMF International Carbon Price Floor (ICPF) Proposal – two Key Elements

1. Focus on large emitters
   - e.g., China, EU, India, US, other G20 countries

2. Focus on minimum carbon price
   - Efficient and easily understood parameter
   - Joint action addresses competitiveness concerns and policy uncertainty
   - Countries can set higher prices if needed

But pragmatic design needed
   - *Equity*: differentiated price floors/simple transfer mechanism
   - *Flexibility*: allow alternative policies with equivalent outcomes
   - Other issues include emissions sources, monitoring

Baseline CO_2 Emissions, 2030



Source: IMF staff estimates.

Effectiveness of an ICPF: Example with Six Countries

G20 CO_2 Outcomes Under Alternative ICPF

Percent reduction in G20 CO_2 emissions below baseline, 2030

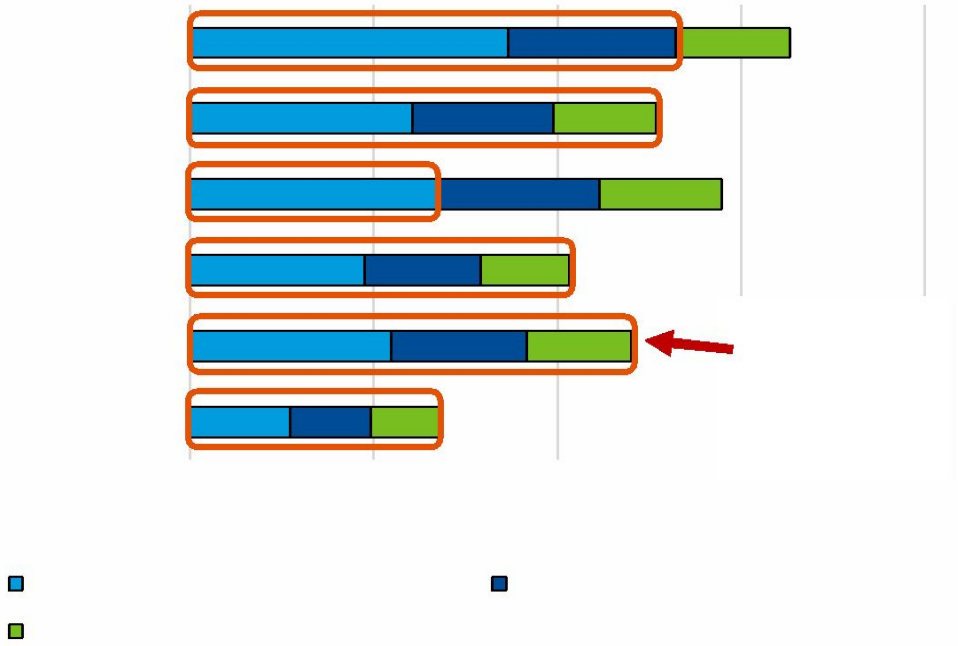
Minimum emissions reductions required for temperature goals[1]:

2°C	20.8
1.8°C	32.8
1.5°C	46.6

	China, US, India, EU, Canada, UK	All G20 Countries
NDCs Only	10.8	14.0
NDCs+$50 Floor	23.4	25.3
NDCs+Differentiated Floor $75/50/25[2]	22.6	24.6

Source: NDCs from June 2, 2021; and IMF staff calculations.
Note: G20 - Group of Twenty; GHGs - greenhouse gases; NDC - nationally determined contributions.
[1] Assumes energy-related national CO_2 emissions need to reduce in proportion to total GHGs.
[2] Higher/middle/lower price for advanced/high income emerging market/low income emerging market economies.

Emission Reductions Under Alternative Carbon Prices, 2030



Price Floor versus other International Regimes

Pure carbon price for all participants

- Limits scope to address international equity
- Precludes countries where pricing is difficult

Annual country level emissions targets

- Larger number of parameters/negotiation is zero sum game
- Uncertainty over specific policy actions

Unilateral border carbon adjustments

- Far less effective as only covers emissions embodied in traded goods