



# Carbon Market Crossroads

New Ideas for Harnessing Global Markets to Confront Climate Change

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# Introduction and summary

Scientists now believe that absent a major change of course, the planet will warm 4 degrees Celsius by 2100.<sup>1</sup> Climate change on that scale would trigger severe economic, environmental, and social disruptions. The global community would become more fractured and unequal than today, and human suffering on an unprecedented scale could ensue, according to the World Bank.

Nations are negotiating in the United Nations a new global climate agreement, but that treaty may not enter into force until 2020. While such an agreement is essential, the international community must ramp up climate action now—not at the end of the decade. Stimulating much stronger climate action would require creating real political will—a sense of purpose that simply does not exist today. Although not a panacea, this report examines the contributions *global* carbon markets—defined here as the buying and selling of climate-change securities earned by reducing greenhouse-gas emissions in developing nations—could make to increasing the world’s ambition in addressing climate change.

To date, global carbon markets have played a key role in accelerating climate action while mobilizing billions of dollars in private-sector investment, encouraging economic growth, and helping to alleviate poverty. These markets have spread the revolutionary idea that all countries and communities benefit from fighting climate change and that domestic policies such as “pricing” carbon make economic sense. In the process, however, these markets have failed in serious ways including giving credits for questionable emission reductions and creating slow and opaque approval processes that have been tarnished with apparent conflicts of interest. The world’s largest carbon markets, moreover, face severely collapsed prices and a crisis in confidence. But these failures and crises should not obscure the markets’ more important legacy and opportunities for impact.

With the right political commitment and much-needed reforms, global carbon markets have the potential to deliver outsized environmental and economic benefits in the coming years. To harness these benefits, the international community should take the following concrete actions.

**TABLE 1**  
**Summary of recommendations**

Recommendation	Action
1 Emergency climate summit	The World Bank and the International Monetary Fund should convene a meeting of world leaders at the end of 2013 to agree on new measures to avert a climate catastrophe with a strong emphasis on using carbon markets.
2 Invest in carbon markets	Countries should make a political commitment to increase demand for global carbon-market credits, either by setting up a market-stabilization fund or by pledging to purchase a minimum quantity of credits from developing nations.
3 Responsible energy	Countries should ensure responsible development of necessary fossil fuels by carrying through on past pledges to eliminate harmful fossil-fuel subsidies—redirecting some of the revenues to global carbon markets—and by requiring oil companies to set aside revenues for drilling in new and high-risk areas to support carbon markets.
4 Strengthen climate goals through markets	Europe should encourage other countries to take more ambitious climate action by committing to reduce its emissions 45 percent below 1990 levels by 2030 and meeting that commitment in part through global carbon markets.
5 Empower consumers	Socially responsible technology entrepreneurs should capitalize on public concern over climate change by using social media and innovative online marketing to help consumers directly finance emission reductions abroad.
6 International carbon market coordinating body	Countries should establish a new body to encourage proliferating carbon markets to converge on the same high standards and to help nations link these markets.
7 Governance reforms	Carbon-market regulators should undertake reforms to improve their credibility, including increasing transparency, creating appeals mechanisms, streamlining approvals, and adding environmental safeguards.
8 Learning-by-doing	Countries should use carbon markets to enable learning-by-doing by pioneering scaled-up market transactions covering entire economic sectors rather than small projects only.

Over the next few pages, we describe the legacy of international carbon markets. We then discuss where those markets are likely to go in the coming years and how the above-mentioned recommendations can further make use of international carbon markets to fight climate change.

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