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The Copenhaguen Accord established the objective of limiting anthropogenc climate change to 2 degree Celsius by 2100.

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This implies that global emissions must be decreased by 60% with respect to 2990 levels by the mid of the century.

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Emission trading can help indecreasing the overall cost, for it will tend to make emission reductions occur where its marginal cost is lower.

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This will only be true if the transaction costs are zero or very low.
At present, the rules for CDM have relatively high transaction costs because of the complicated requirements associated with the concepts of additionality and leakage.

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Under the Kyoto regime, the Annex I countries have objective targets expressed in relation to their 1990 emission levels.

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Non-Annex I countries participate in the carbon market with reductions with respect to a hypothetical baseline established according to detailed rules approved by the EB on a case-by-case basis (the methodologies). This difficulty would be eliminated if there was a negotiation to establish fixed reference emission levels for all countries.

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What really matters is that the trajectory of emissions move from the red to the blue curve in the following figure.

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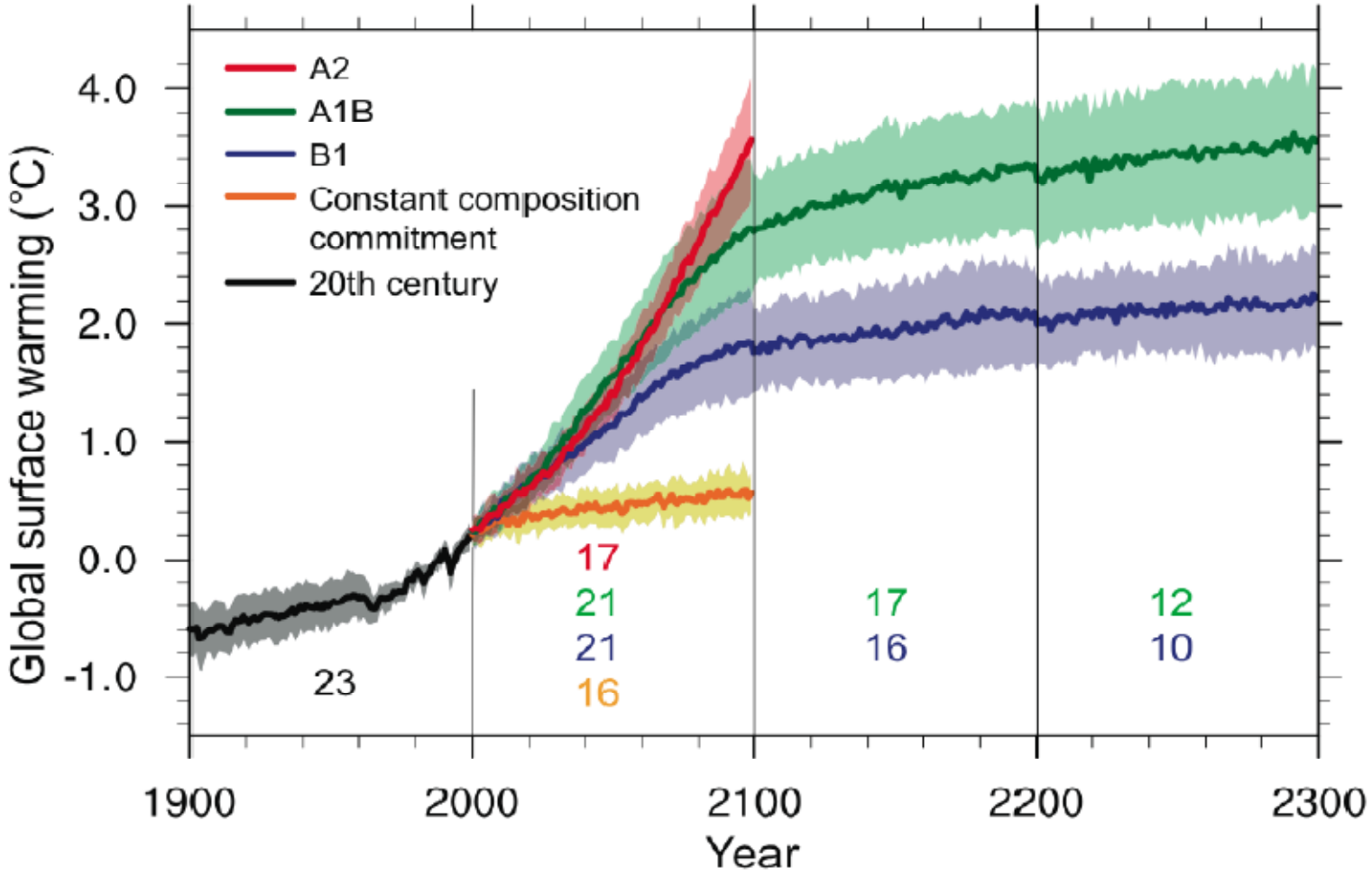

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My conclusion is that the evolution of emission trading is tied to the overall negotiation of future levels of emissions in all countries. Once this is agreed, it would be relatively easy for each country or group of countries, if they so wish, to establish their own trading schemes which would then be linked to a global market.

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The idea that the market itself would take care of the problem of initial allocation of emission permits neglects the fact that such levels must be negotiated according to the principles of the Convention, notably the principle of a common but differentiated responsibility.

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A special and important challenge is that associated with the future REDD mechanism. It is a matter of urgency to develop accptable objective criteria for the establishment of baselines for REDD.