

10th Annual Workshop on Emissions Trading

Session 4 – Linkage: Regional focus

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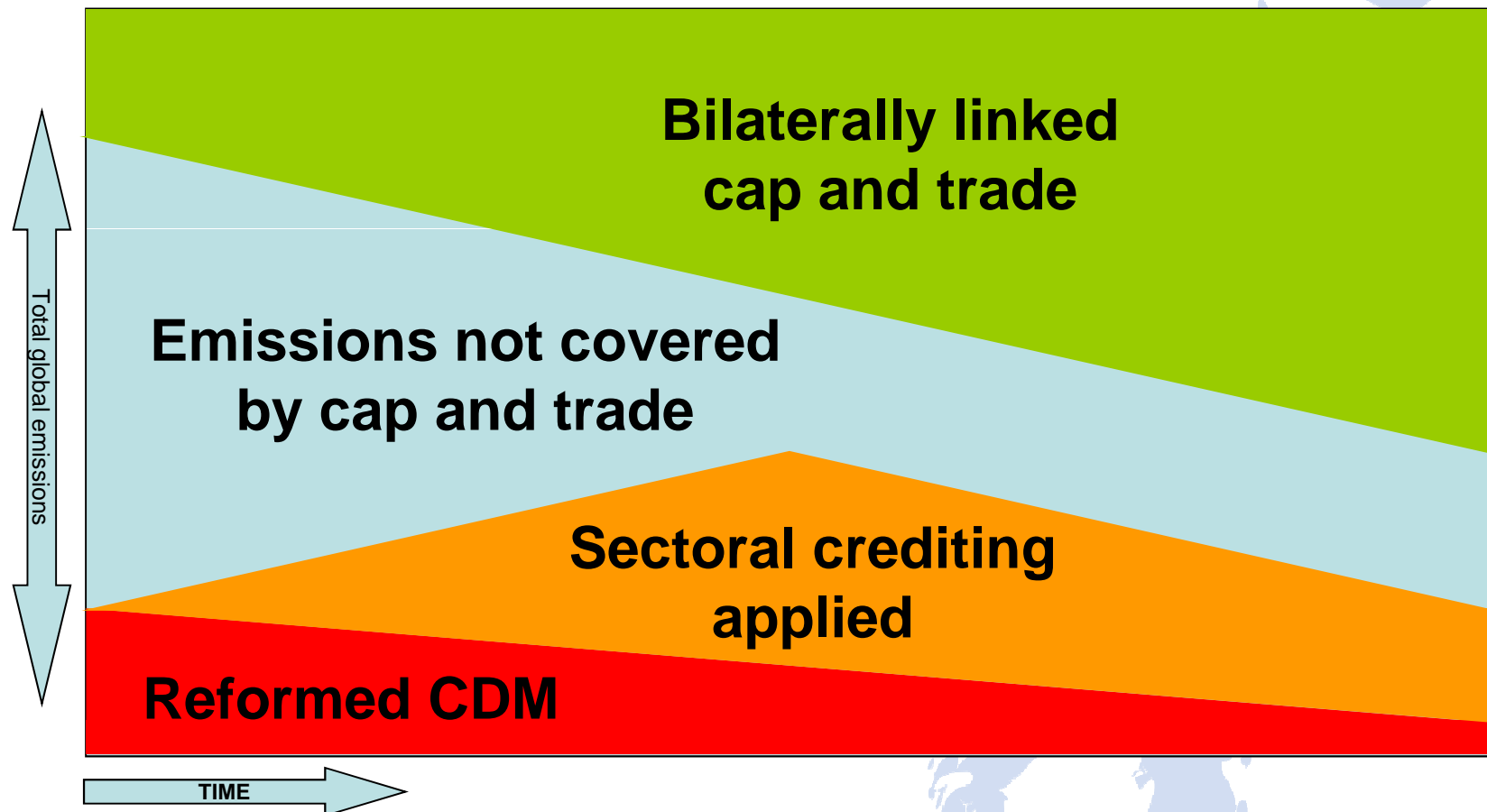
Importance of a robust international carbon market

- In parallel to and supporting the UN process
- To get as close as possible to an international price for carbon
- As an important source of climate finance - potentially € billions/year in 2020 with a robust market
- Plus linking increases liquidity, reduces volatility, increases opportunity for low cost abatement

Where we are now

- More than 80% of the carbon market demand created through domestic legislation
- EU ETS covers 30 countries
- EU ETS and EU Member States have provided the main demand for Clean Development Mechanism (CDM) credits - EU private buyers account for 80% of CDM and JI demand
- New domestic cap and trade systems expected to come on line

The EU roadmap to an international carbon market: a three-step approach



- Many countries, including emerging economies, have now pledged more action to reduce emissions and are looking at how to do it
- Emission trading systems are a cost-effective way to meet domestic emissions reductions targets
- Cap and trade in place or in discussion: US (RGGI and WCI), Japan, Switzerland, NZ, Australia and others.
- ETS interest /developments in China, South Korea, Chile, Brazil and India...
- EU working with others to share its ETS experience

International Carbon Action Partnership ICAP

- Public authorities committed to cap and trade
- Technical exchange on best practice to improve design and promote compatible systems

Members:

- EU: European Commission, Denmark , France , Germany, Greece , Ireland, Italy , Netherlands , Portugal , Spain , United Kingdom
- North America:
 - Regional Greenhouse Gas Initiative Members (RGGI): Maine, Maryland, Massachusetts, New Jersey, New York
 - Western Climate Initiative Members (WCI): Arizona, British Columbia, California, Manitoba, New Mexico, Ontario, Oregon, Québec, Washington
- Others: Australia, New Zealand, Norway, Tokyo Metropolitan Government
- Plus Observers: Japan, Korea and Ukraine

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- Procedures for linking in EU legislation through mutual recognition of allowances from compatible mandatory cap and trade systems.
- In substance: no criteria for linking, although some clear areas that could cause concerns in terms of environmental integrity (level of ambition, number and type of offsets, price controls)
- In practice: early indirect linking through recognition of the same international credits

Tackling aviation emissions

- All flights into and out of the EU covered by EU ETS from 2012 (1/3 global aviation emissions), and included in EU's 20% unilateral reduction target
- Where third countries take action on aviation emissions, the EU can recognise it as equivalent action + exempt incoming flights from EU ETS, by delegated legislation
- A form of linking between ETS systems at whatever level and with other policy measures

Indirect linking: coordination of recognition policy is important

- The number and type of international credits that we allow for compliance in our ETS
- Use to ensure that demand supports progress in UN negotiations
- An important incentive, if used responsibly, to support more ambitious action in emerging economies
- Coordination essential to avoid arbitrage
- Key issue for linking: credits allowed into one system is allowed into linked systems
- Relevant issue also for indirect linking

Potential for international credits

- EU ETS in 2008-20: a quantity of approx 1600 million tonnes (under unilateral -20% target), with use standards foreseen.
- Approx. 800 million tonnes additional quantity under Effort Sharing Decision (ESD).
- Credits meeting certain conditions from countries that have signed an international agreement, once reached, or have agreement with EU
- EU can initiate sectoral crediting, bilaterally or multilaterally, under Article 11a(5) EU ETS for use in EU ETS or in ESD
- Significant quantities foreseen to be used in other (planned) ETS, with their own use standards
- Uncoordinated approaches can lead to:
 - Arbitrage opportunities between markets
 - Loss of incentivisation opportunities with offset supplying countries

- A strong international carbon market is needed, which will develop in parallel to the UN process
- Bilateral linking of domestic cap and trade systems
- Cap and trade is an attractive approach: domestic ETS debates taking place around the world, including in emerging economies
- Inclusion of all flights in and out of the EU in the EU ETS from 2012 broadens the ETS and linking debate
- Indirect linking and the coordinated credit recognition policies is an area where coordination should be pursued.