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
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

- Bilaterally linked cap and trade
- Emissions not covered by cap and trade
- Sectoral crediting applied
- Reformed CDM
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.
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
• 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.
To conclude

- 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.