A “hard currency” for the global carbon market

6th Annual Workshop on Greenhouse Gas Emission Trading, Paris
What drives a common currency?

- Why is it called “hard currency”?
- How did the US dollar become the world’s hard currency?
  - War, politics, resources, religion…
- How long until we move to the Euro
  - or perhaps back to gold
  - or maybe oil?
What does hard currency do?

- Provides a common basis for valuation
  - Big Mac Index
  - Gold and other real commodities
- Allows value to be transferred across borders
- Provides confidence in transactions
- Point of reference for other currencies
Within the global carbon market

- Permit schemes
  - EU ETS
  - KP 1st CP
  - RGGI
  - Australian NETS
  - JVETS
  - California
  - CCX ...

- Credit schemes
  - CDM
  - JI/GIS
  - NSW GGAS
  - Climate Trust
  - Offsets for RGGI, Aus NETS, CA ...
What is the glue that links them?

- All of the permit schemes have seen the value of recognising CERs
  - Sustainable development & tech transfer
  - Potentially cheap abatement
- Most importantly, CERs are recognised as robust and representing real abatement – thanks to the CDM-EB
- For permits, it is perhaps a little like “printing money”
“One-way CER gates”

- Allows CERs to be “used” for local compliance purposes
  - or “converted” to local units and then used
- Does not allow CERs to be created
  - However, larger players will create opportunities to shift value around
- Provides a link to global abatement costs and perhaps serves as a cap on the cost of compliance
Do we need deeper links?

- What would “bilateral linking” provide, that “one-way CER gates” doesn’t do?
- Will the politics of compliance markets tolerate “market draining”?
  - Non-compliance is more than just a function of market efficiency
  - National interest is inevitably the priority
- Do we trust the “quality” of other units?
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