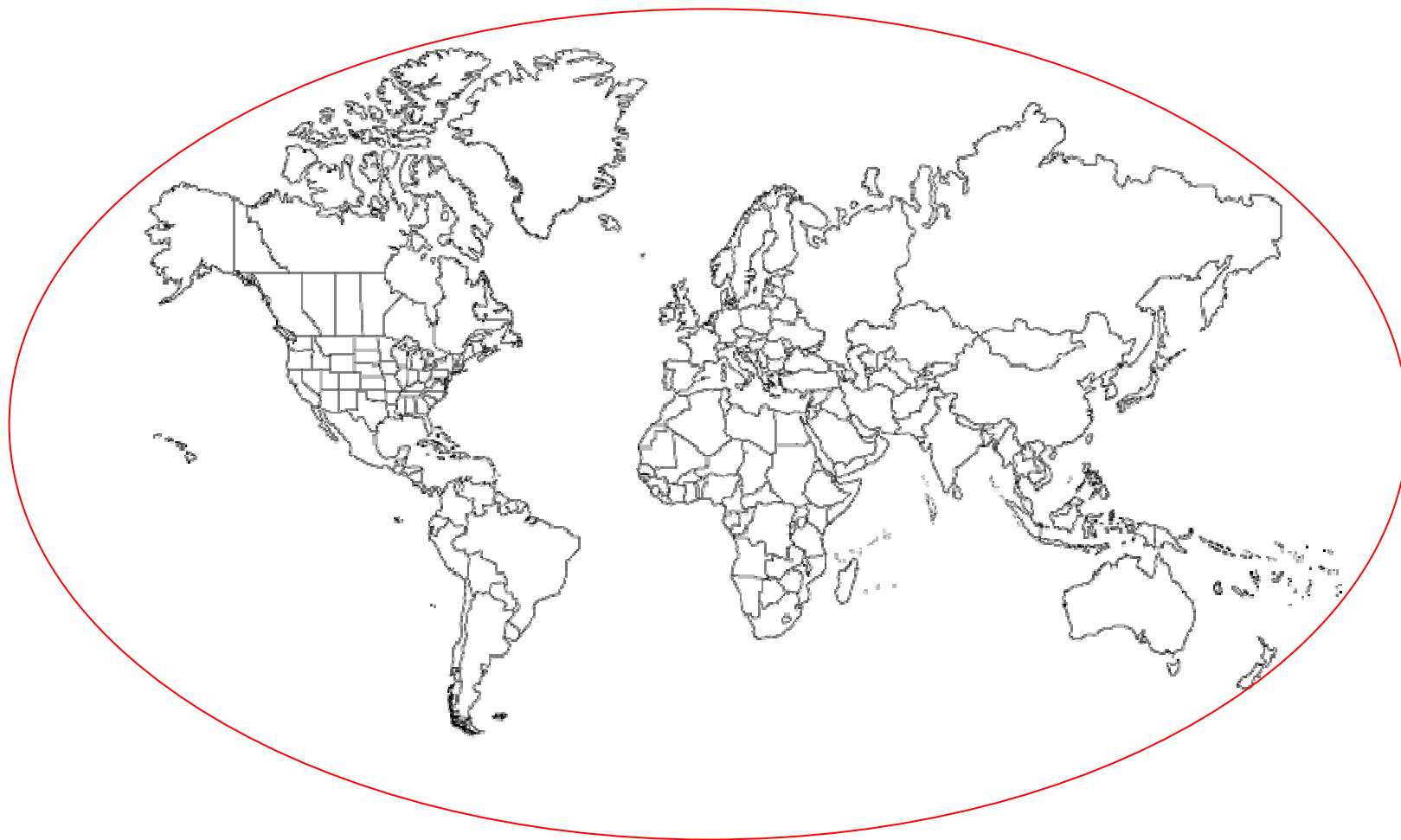


Linking: Strategic Issues

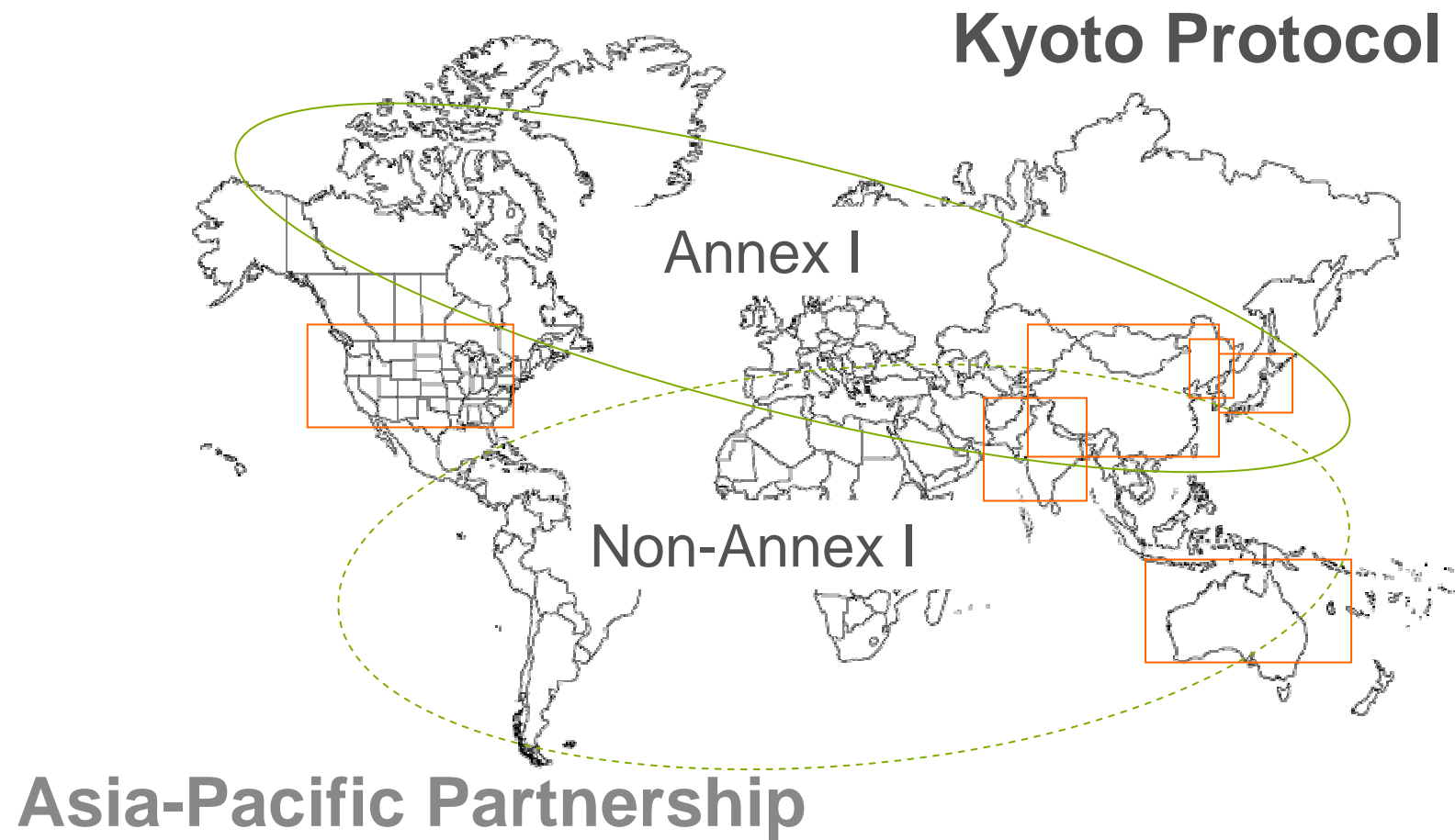
Sixth Annual Workshop on GHG Emissions Trading

Mark Proegler, BP
27 September 2006 Paris

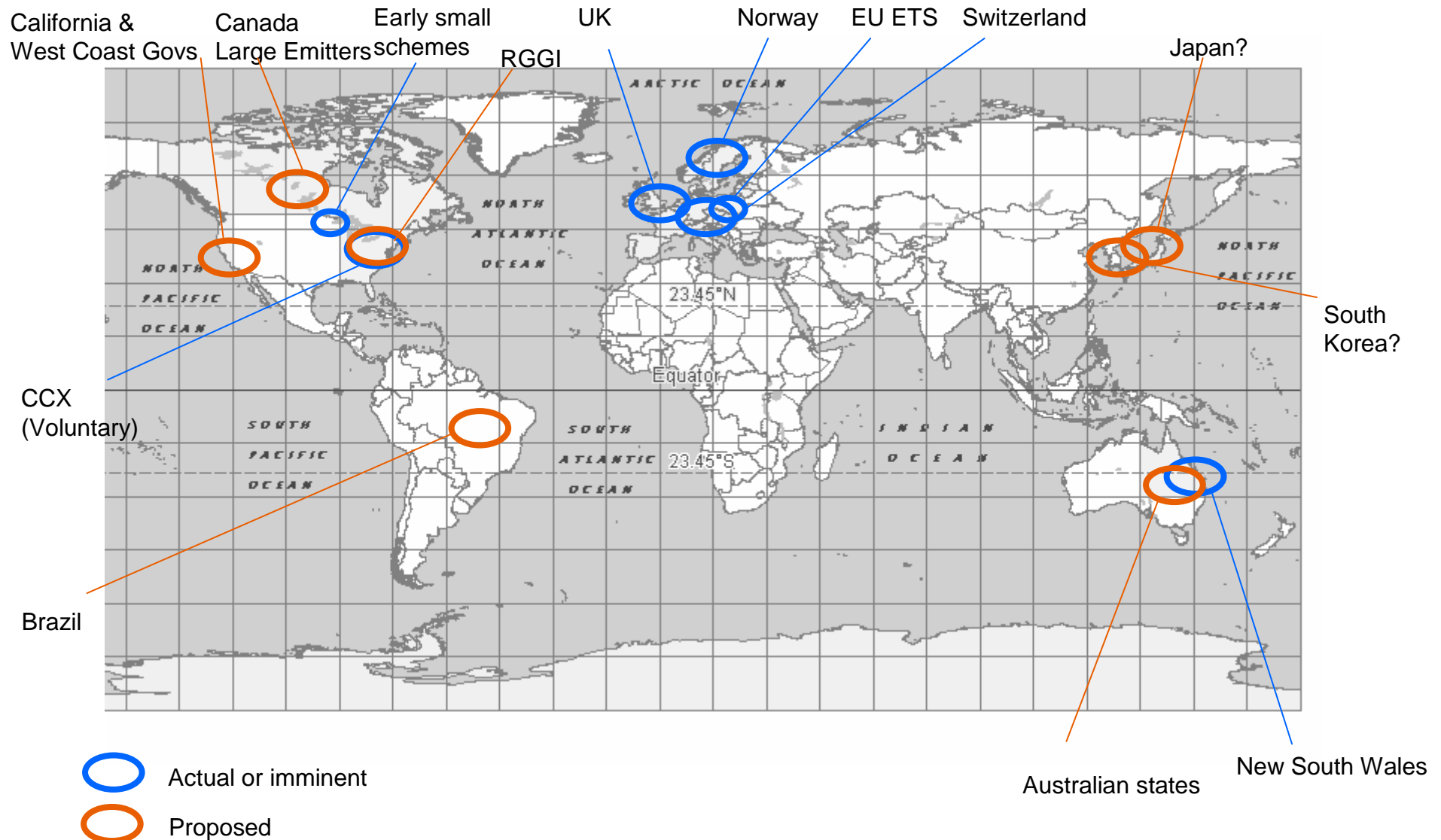
The Global Challenge



The Political-Economic Realities



Existing & Developing GHG Markets



The Rationale for Linking



- GHG is a global issue and needs a global solution
- The larger the “market” :
 - The greater the access to more & varied emissions-reducing solutions
 - The greater the access to capital
- As a global emitter we want to see a global price signal for carbon
 - Enabling us to value our emissions reduction options and lower carbon investments across our portfolio
 - Giving us the flexibility and ability to pursue the least-cost solutions

How could systems be Linked?



- **Reciprocity**

- Mutual recognition of allowances across systems
- Linking could be one or two way e.g. RGGI includes language for possible recognition of EUA's for compliance (one way)
 - One way linking is politically unattractive
 - Kyoto – non-Kyoto linking is difficult and would cause compliance issues for Kyoto party

- **Project Credits**

- Systems could be linked through fungibility with the same project credit mechanisms (e.g. CERs)
- A more straightforward way to create indirect pricing links between systems
- Fewer legal and political hurdles today than direct linking

Barriers to Linking



- There are a number of constraints
 - Kyoto versus non-Kyoto political and compliance issues
 - Registries / International Transaction Log
 - Guard against double counting
 - Price caps and safety valves
 - Potential for international 'hot air' – depending on rules
 - In a fully fungible market then the lowest safety valve price among the systems would set the international price
 - Equitable environmental integrity
 - Legal recognition across multiple jurisdictions

Pursue Harmonization Ahead of Linking



- The GHG markets and regulations are growing
- Direct linking of multiple markets is unlikely in the near term
- Pursue *harmonization* as a facilitating step:
 - Programs should facilitate carbon price signal
 - Of broadest possible coverage and greatest possible long-term predictability
 - Similar design elements
 - Coverage, registries, monitoring, reporting & verification, use of project credits
 - At each step
 - Learn lessons about what works and what doesn't and facilitate global dialogue
 - **Markets** will find a way, but **governments** need to create the regulatory framework and rules

Thank You

