

Towards a Post-2012 Climate Framework: The Role and Limitations of Emissions Trading

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International Climate Negotiations

- Where are we today?
 - AWG 3.9 to Kyoto Protocol
 - Dialogue under the UNFCCC
- What is likely in Bali?
 - COP 13 can launch new Convention process (likely not a negotiation) inviting post-2012 proposals
- Real negotiations unlikely before 2009
 - Interim deals possible

Scenarios for Future Climate Action

Two visions of the future:

- Scenario 1: *A linked approach*
- Scenario 2: *A post-2012 deal*

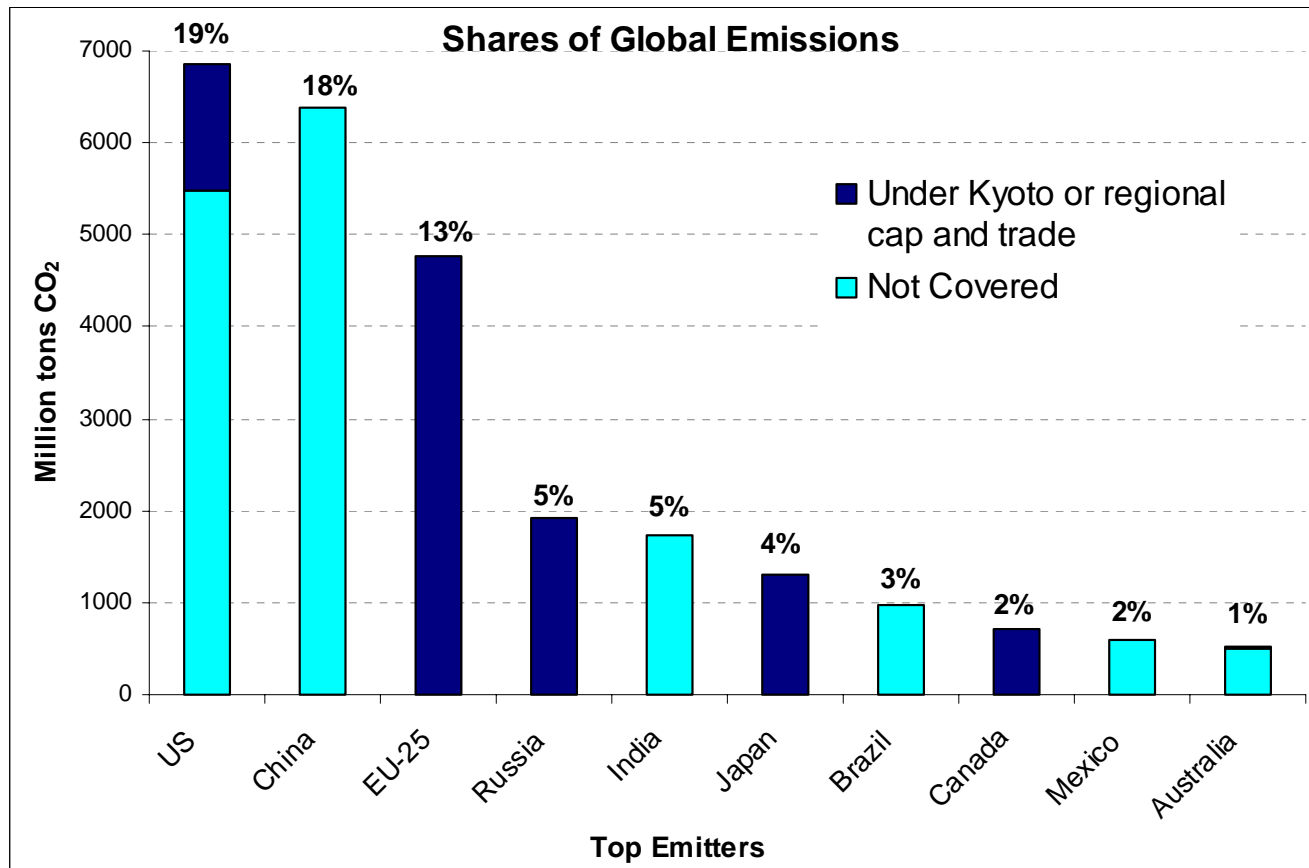
Scenario 1: A Linked Approach

- EU-ETS goes forward
- The US sets up domestic cap & trade
- Japan/Canada/Australia/NZ set up domestic programs
- CDM or domestic programs allow for international offsets, developing countries continue to sell credits

trading
systems link
bilaterally

→ Overall effort is modest

Coverage of Cap and Trade Systems



(2004) Includes CO₂ and other gases, excludes LULUCF emissions

- How to broaden scope?
- What is role of expanded emissions trading in other commitment types?

Getting to Scenario 2: A Post-2012 Deal

- Climate Dialogue at Pocantico provides one vision
 - The Pew Center convened 25 senior policymakers and stakeholders from 15 countries
 - Consensus reached on objectives and broad outlines of a post-2012 framework
- Key points:
 - It is both an environmental and political imperative to engage all the major economies
 - Doing so will require a flexible framework allowing varied commitment types

Elements of a Flexible Framework

1. Targets and trading
2. Sectoral approaches
 - Agreement of several countries organized around a sector; internationally negotiated and committed internationally
3. Policy-based approaches
 - national programs committed internationally
4. Technology cooperation
5. Adaptation
6. Aspirational long-term goal

Negotiating a Multi-track Deal

- A package deal under UNFCCC among Kyoto countries, the US, and major developing economies
- A flexible framework allowing varied types of commitments:
 - Targets/trading, policy-based commitments, sectoral agreements, technology cooperation, adaptation, aspirational long-term goals
 - Negotiate packages of different commitment types, plus financial and technology support
- Collective effort stronger if the multiple “tracks” are linked and negotiated as a package

Role of Emissions Trading

- Emissions trading between current cap and trade programs will be an important part of a post-2012 agreement
- Other forms of action (aside from national caps) should also be included in an international framework, particularly to engage developing countries
- May be an opportunity to expand the reach and impact of the carbon market through these other commitment types

Elements of a Flexible Framework

1. Targets and trading

2. Sectoral approaches

- internationally negotiated, pledged or committed internationally

3. Policy-based approaches

- national programs pledged or committed internationally

4. Technology cooperation

5. Adaptation

6. Aspirational long-term goal

Sectoral Approaches

- Sectoral agreements are second-best – less efficient than global, economy-wide cap and trade
- But sectoral agreements can help:
 - Broaden participation
 - Simplify negotiations
 - Target key sectors
 - Address competitiveness concerns
- Format might include:
 - Long-term target; Shorter-term targets and trading; Performance standards; Taxes; Technology/specification standards; Technology R & D; Finance; Information and data

Policy-Based Approaches

- Countries commit to undertake national policies that reduce emissions but are not bound to economy-wide emission limits
 - Aimed at developing countries
 - Policies could vary widely in scope and form, driven by economic or development objectives
 - Could be linked to financial incentives or crediting mechanism
 - Could evolve, as did the target-based approach, from voluntary to binding

Examples of Policy Actions

- Policy actions could employ any number of instruments across a wide range of sectors and activities, as long as they can be reasonably expected to result in quantifiable greenhouse gas reductions
- Possible mechanisms include goals, targets, performance or technology standards, pricing reforms, and tax and other incentives, among others
- Chinese context: RE targets, fuel economy standards, appliance standards, industry performance targets, etc.

Policy Commitments: Context

- A growing number of UNFCCC parties have expressed support for some means of introducing new *voluntary* actions into the international framework
 - South Africa has proposed that developing countries pledge to “sustainable development policies and measures” (SD-PAMS)
 - A coalition of tropical forest countries has proposed establishing a process for individual countries to voluntarily put forward policies to reduce deforestation; Brazil has offered a somewhat similar proposal

Basis for Post-2012 Commitments

- During this stage, policies put forward would be have to be accepted as sufficient by other parties (goal is a comprehensive agreement)
 - Need to be seen as tangible, meaningful obligations, not simply voluntary pledges
 - Parties would present an estimate of quantified emissions reductions to assess effort
 - Quantification at this stage will require scrutiny by other parties, or perhaps by an expert panel
- Determination of participation through negotiation

Reviewing Implementation of Policies

- Options for assessing implementation of policy commitments:
 - Report periodically on progress and the estimated emission results, subject to some form of review
 - Could evolve from simple information-sharing to an in-depth assessment of a party's implementation (in-depth review by secretariat, an expert panel, or a subgroup of parties serving rotating terms)
 - Not being held to specific emissions outcome
- Measures of effort and progress:
 - Emissions reductions
 - Key legislative or regulatory milestones
 - Levels of funding and personnel devoted to implementation
 - Fulfillment of quantified policy goals
- At later stages, one purpose of review of implementation could be to assess compliance, possibly as a basis for enforcement

Incentives for Participation

- Incentives could take many forms and address different needs at different stages:
 - Building capacity within developing countries to develop and assess policy options and to implement policies
 - Facilitating access to technologies needed to meet policy commitments
 - Providing market-based opportunities for crediting policy-driven emission reductions

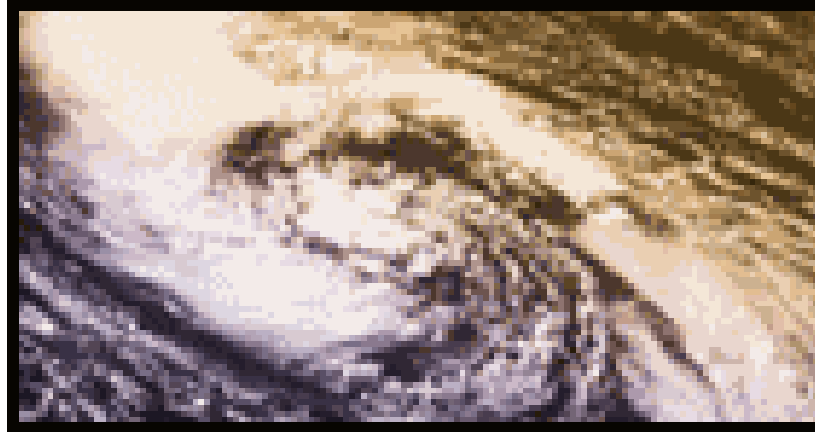
Crediting of Policy-Based Reductions

- Building upon the CDM
 - Ongoing evolution from project based to broader crediting sets groundwork
- Key issues in “policy” crediting:
 - Double-counting
 - Leakage
 - Flooding of the carbon market, over-subsidization
 - Open-ended crediting a disincentive to move towards more stringent commitments
- Options for restricting crediting:
 - Limiting the volume of credits a country can buy or sell
 - Discounting all policy-based crediting (receive credits for only a portion of their verified reductions)
 - Crediting only reductions that exceed those initially projected
 - Taking on policy commitments could be a condition for access to crediting

Conclusions

- Broadening types of commitments taken by countries necessary to achieve broader reductions, broader engagement
- The value of a policy and sectoral approaches rests on the credibility of the commitments taken: must ensure credibility while still affording countries the flexibility to fashion commitments best suited to their needs and circumstances
- Expanded crediting of policy or sectoral commitments increases incentives for developing country mitigation actions, driven by developed country targets
- Expanded developing country action will be necessary for continued developed country targets, and future of carbon market

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