

Linking domestic ETS and the post-2012 international climate policy

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- **Achieve emission reductions at lower cost**
 - Access to more low cost emissions reductions
- **More robust price signal and less price volatility**
 - Larger trading volumes / higher liquidity
- **More stable expectations for investors**
- **Strengthen cooperation between parties with binding targets and increase incentives for others to take such targets on board**
- **Collaboration in design issues facilitates linkage of emerging systems**

Considerations for linking

- **Environmental integrity** - linking trading systems should not lead to fewer emissions reductions than if schemes operated independently (e.g. currency, price caps)
- **Institutional compatibility** - institutional structures of the trading systems to be linked (i.e., allowances, emissions covered, registries) should be generally compatible
- **Economic efficiency** - linking two or more trading systems should provide same or better cost savings relative to independent operation (avoid overly complicated gateways)
- **Equity** - linking trading systems should not unfairly disadvantage any participants (targets, allocation rules)
- **Transition** - for transitional phase differences may be tolerable - important: long-term convergence!

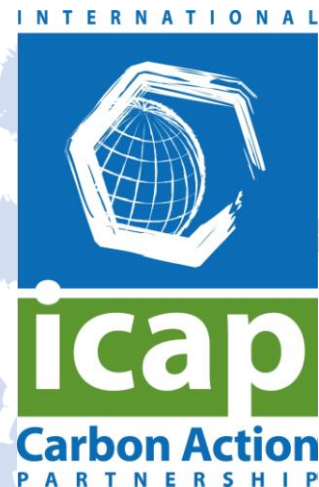
EU linking and revision ongoing

- **EU ETS: 30 countries, incl. Norway, Iceland, Liechtenstein**
- **Linking agreements can be concluded with developed country which has ratified the Kyoto Protocol**
- **In revision of EU ETS: more flexibility foreseen for linking EU ETS with other mandatory emission trading systems capping absolute emissions, e.g. non-Kyoto Parties, regions**

***The ultimate objective is a global
carbon market***

**The European Commission is a
founding member of the International
Carbon Action Partnership.**


www.icapcarbonaction.com

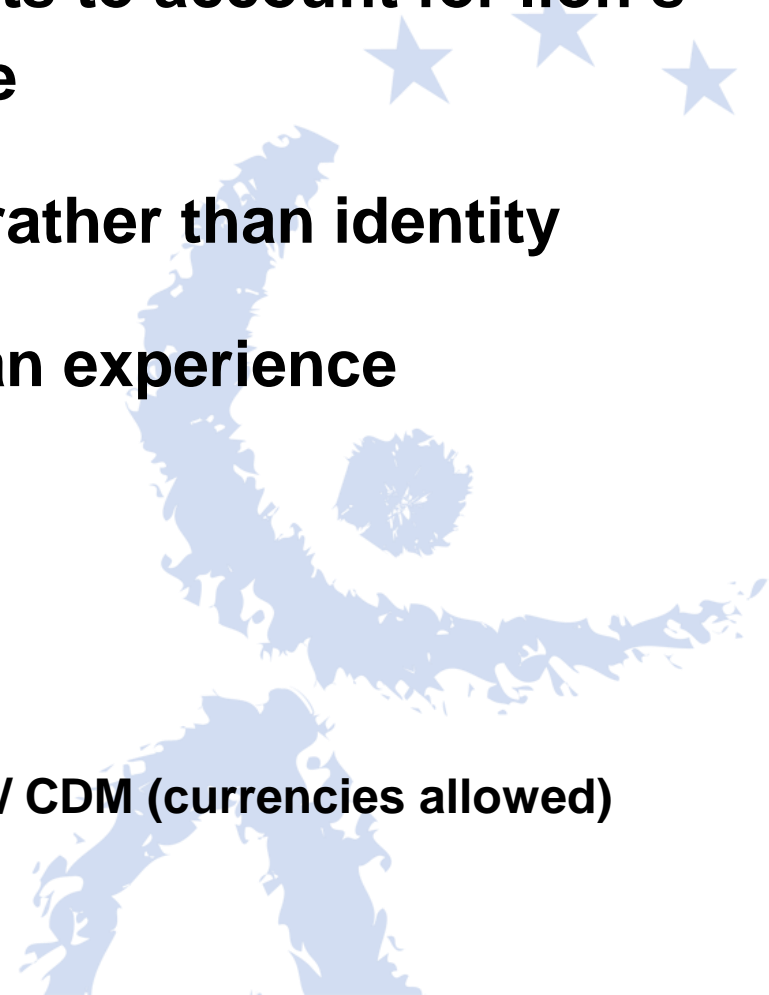


- **ICAP - international forum of governments and public authorities to discuss relevant technical questions on the design, compatibility and potential linkage of regional carbon markets (since Oct 2007)**
- **Membership: countries or regions engaged in designing or implementing mandatory and trade systems**
 - EU ETS, RGGI, WCI, Australia, New Zealand,
 - Observership possible: Japan
- **Activities 2008:**
 - Conference on Monitoring, Reporting, Verification, Compliance and Enforcement, 19-20 May, Brussels
 - Conference on Auctioning carbon allowances, 14 November, Washington DC

- 1. The European carbon market is in place**
 - 2. A North American carbon market is emerging**
 - Regional schemes in the US (RGGI, WCI, MGGGA)
 - Soon (?) to be superseded by a US ETS
 - Canada?
 - 3. An Asian-Pacific market is emerging, too**
 - Australia
 - New Zealand
 - Japan
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- Major developing countries find favour with existing arrangements as a supplier of CDM credits
- The defining characteristics of the current CDM are
 - Project-based and voluntary
 - Credit for every tonne reduced/avoided (offsetting)
- The need to move beyond the CDM *as we know it*
 - from projects to sector / multi-sector arrangements
 - from offsetting to crediting
 - from voluntary to mandatory participation
- **CDM in its current design is a temporary solution**

- **Intense stakeholder and expert debate has developed**
 - **Both presidential candidates in favour of introducing a US-wide carbon market**
 - **Increasing intensity of Congressional debate**
 - **Senate floor looked at Lieberman/Warner bill**
 - **Series of white papers in the House**
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- **Analysts expect EU/US markets to account for lion's share of global market volume**
 - **Need to assure compatibility rather than identity**
 - **Interest to learn from European experience**
 - **Key strategic issues**
 - Type and stringency of the cap
 - Price control mechanisms
 - Recognition of international offsets / CDM (currencies allowed)
 - Currencies (AAUs, ...)
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Emerging regional US carbon markets

- **RGGI – Northeast: starting in 2009**
 - Coverage limited to power sector
- **California / West Coast: in preparation, aiming for 2012**
 - ARB Draft Scoping Plan
- **Midwest: work started earlier this year**

- **Ambitious post-2012 agreement would provide a political framework for strengthening and further development of carbon markets via robust domestic legislation**

- **Main objective to tackle climate change: building a global carbon market to reduce greenhouse gas emissions - to do so at least cost**
- **Thus linking ETS is important part of Commission strategy**
- **Four pillars of global carbon market: EU, North America, Asia Pacific and major emitting developing countries**
- **Timely discussion of key design elements facilitate linking**
- **Linking EU ETS must not jeopardise its environmental integrity**

Thank you!

visit

<http://ec.europa.eu/environment/climat/emission.htm>