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Linking domestic ETS and the post-2012 international climate policy

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Why link domestic ETS?

- **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!

Linking with EU ETS

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**
- **<u>In revision of EU ETS</u>: more flexibility foreseen for linking EU ETS with other mandatory emission trading systems capping absolute emissions, e.g. non-Kyoto Parties, regions**

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The ultimate objective is a global carbon market

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

www.icapcarbonaction.com

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PARTNERSHIP

ICAP

- **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**

Pillars of the global carbon market

1. The European carbon market is in place

2. A North American carbon market is emerging
   - Regional schemes in the US (RGGI, WCI, MGGA)
   - Soon (?) to be superseded by a US ETS
   - Canada?

3. An Asian-Pacific market is emerging, too
   - Australia
   - New Zealand
   - Japan

Fourth emerging pillar– major developing countries

- **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**

US: Developments at federal level

- **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**

US: The significance of ETS

- **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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US: Developments at state level

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

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Post-2012 climate policy and linking

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

Conclusions

- 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

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Thank you!

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