

IEA-IETA-EPRI 12th Annual GHG Workshop
Emissions Trading, Trade and Trade Wars



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Carbon Trading and Energy Market Fragmentation in the Age of Austerity

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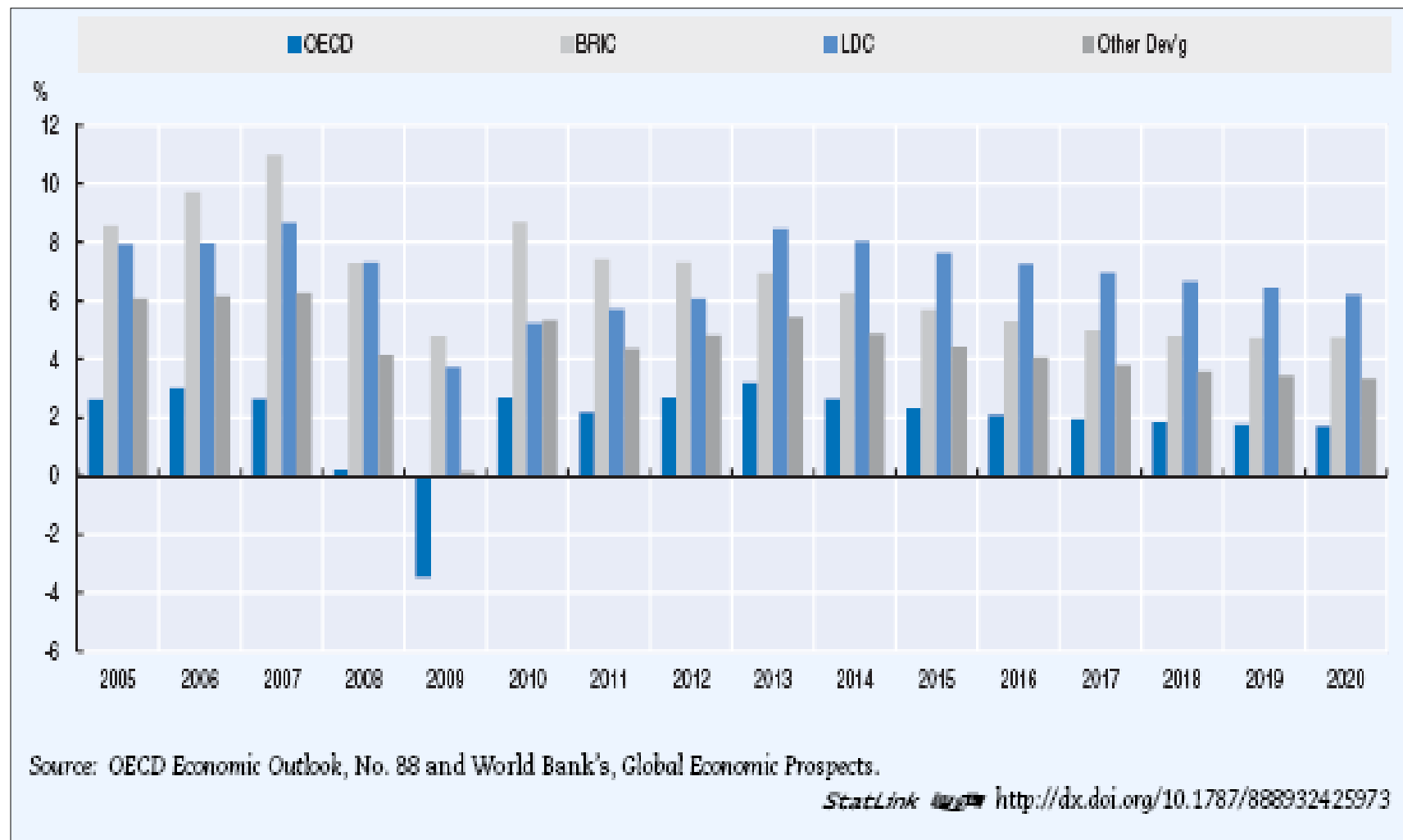
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Overview

- Current world context: living the age of austerity
- World trends: trade flows, energy
- Carbon and energy related trade wars
- Carbon and energy related trade solutions?

Living the age of austerity



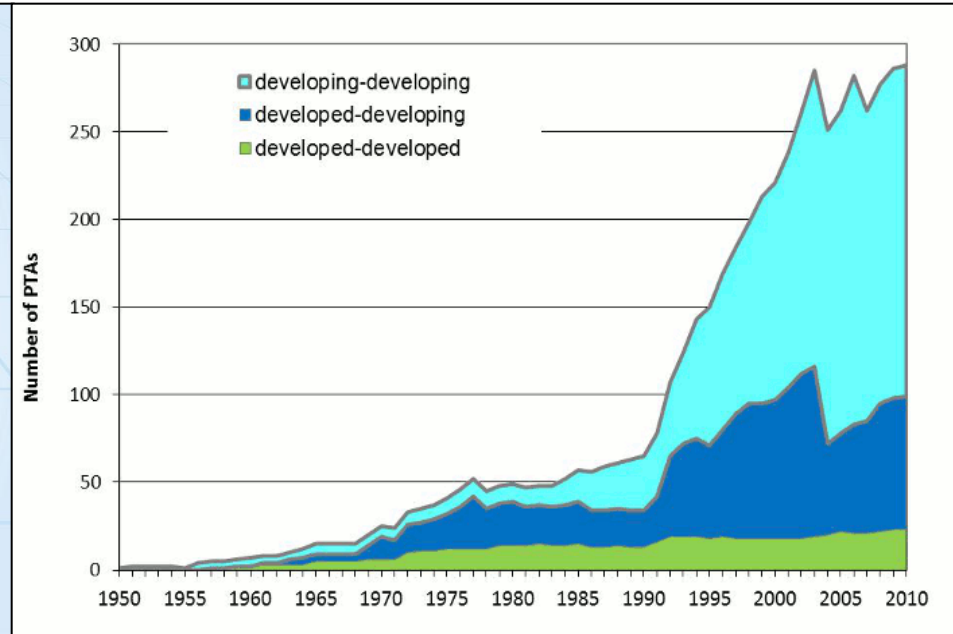
Living the age of austerity

- The world has changed
- 2008 and 2009 economic correction proving to be long, slow, and deep
- Rise of the emerging economies
- Tempered recovery in OECD countries
- Resulting trade and labour protectionism
- Reminiscent of post-WWI market fragmentation, pre-New Deal economic and policy conditions
- If history a good predictor of the future, does not bode well for the development of a harmonized, world GHG market
- Result: fragmentation!! and trade wars in GHG and underlying energy intense markets

World trends: trade flows

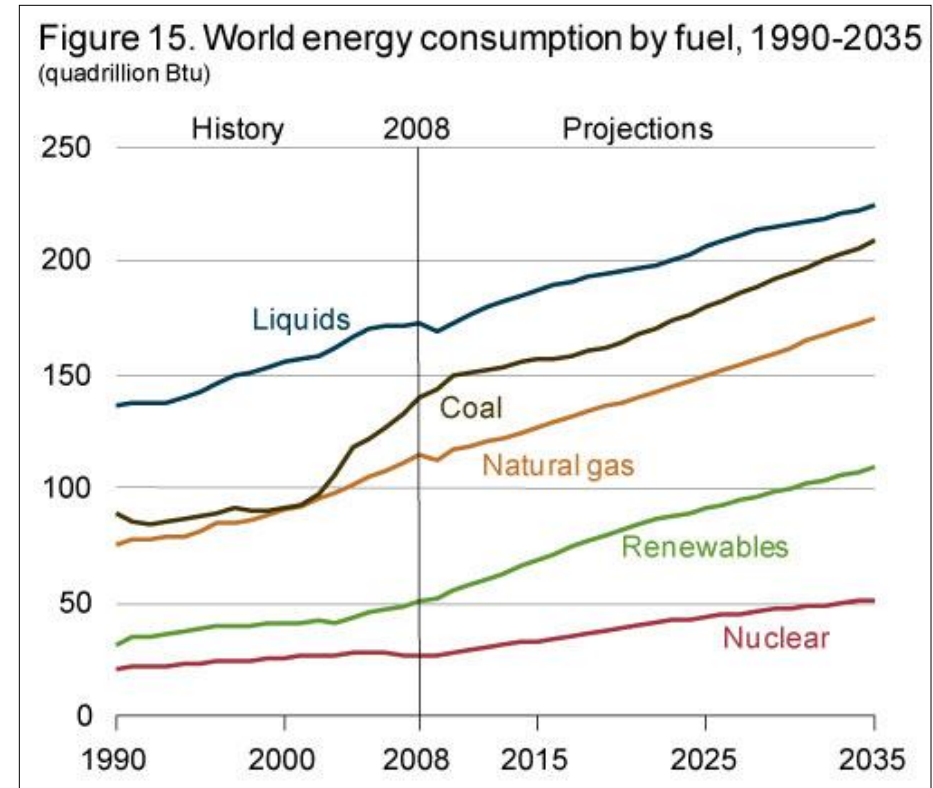
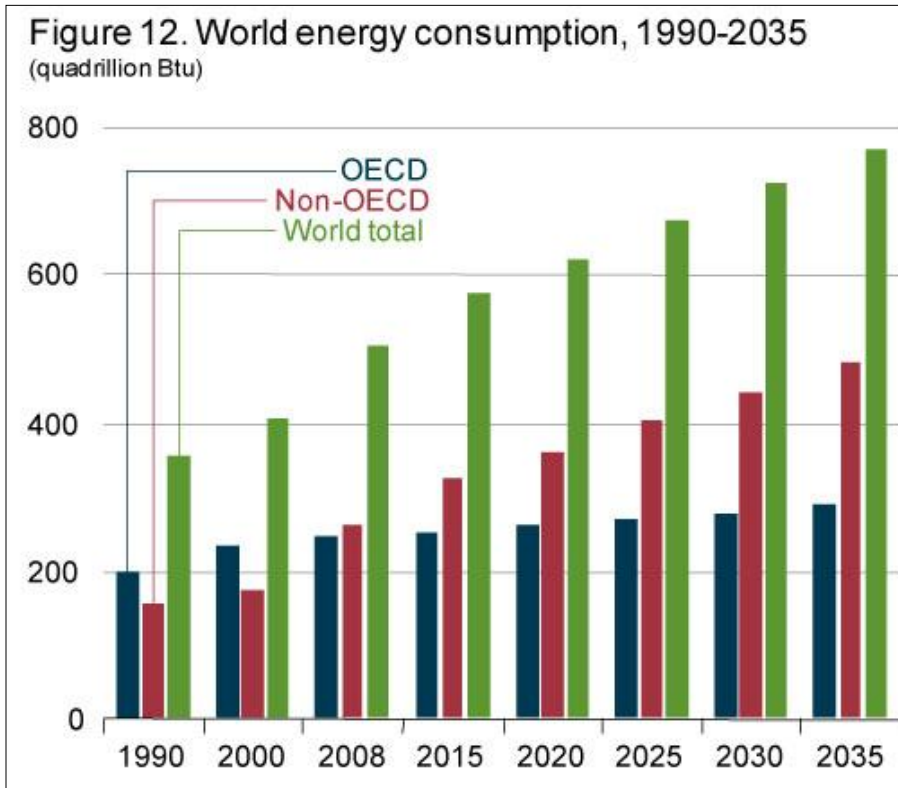


Source: Trade Finance Magazine, Sept 2011

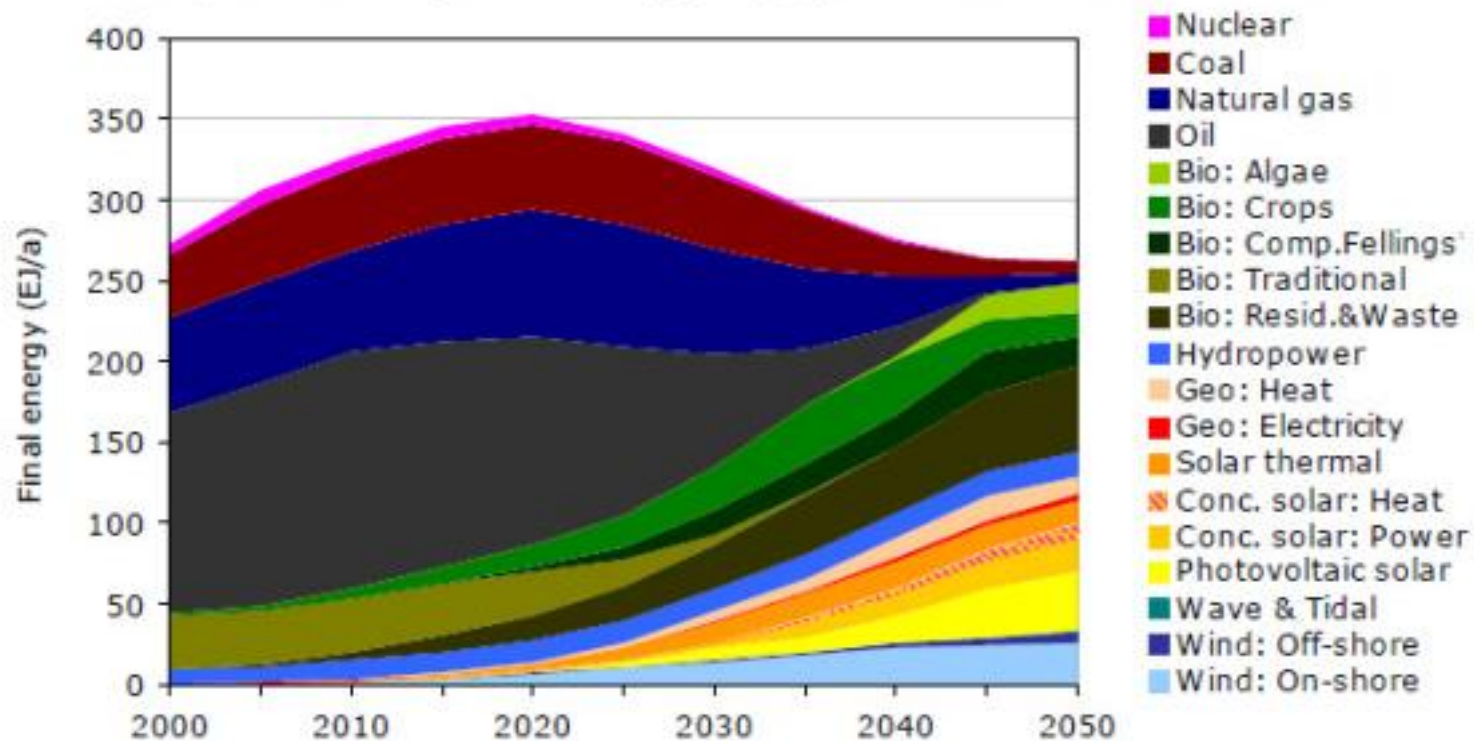


Source: World Trade Report 2011

World trends: global energy demand



World trends: global energy supply



Source: WWF/Ecofys Energy Report

Carbon and energy related trade wars

- Recent examples: climate and GHG standards as a trade shield? or trade sword?
- EU Fuel Quality Directive
 - the standard: requires suppliers to reduce GHG intensity of fuels by 6% by 2020
 - proposed standard: "conventional" fuels (includes heavy crude) 87.5, oilsands bitumen 107, oil shale 131.3 g CO₂e/MJ
 - but for what? what is a "like good" : heavy crude versus oilsands bitumen
- California Low Carbon Fuel Standard
- Aviation
- EU, Japan WTO challenge, MESA Power NAFTA challenge of Ontario FIT
- US - ITC China solar panel subsidy and proposed countervailing duty
- Keystone and Gateway pipelines: monopoly buyer mitigation strategy?
- President Obama veto of Chinese owned wind farm near military base

Carbon and energy related trade solutions?

- All current challenges motivated - at least in part - by competitiveness concerns and labour protectionism
- Result: fragmentation of key energy markets, GHG policy and related emission markets
- Short term pain.... but... longer term gain?
- Carbon credits/offsets may very well be the common currency - subject to TBD "exchange rates" between trading partners, avoiding LCFS/FQD type fragmentation and other non-tariff barriers to trade in energy markets
- Consider recent Australia, EU, California, Quebec linkage developments
- Even more unlikely... China adopting pilot aggressive emissions trading scheme in 7 large provinces and Korea moving toward a cap and trade system

Conclusion

- During this time of austerity and intense global competition for limited growth and resources, prepare for more trade wars and market fragmentation in the energy and other key resource markets (mining commodities, food, fertilizer, cement, steel)
- Similarly, prepare for fragmented GHG policy approaches with emerging growth economies favouring intensity-based cap and trade systems and developed countries with slowed/stalled growth moving toward sectoral emission performance standards and tax-type instruments.
- Expect ongoing labour protectionism and trade wars reminiscent of post war Roosevelt New Deal days
- Look closely to carbon markets to give rise to GHG "exchange rates" between small coalitions of large, willing trade partners in order to avoid fragmentation and associated inefficiencies in global energy markets

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