

# Creationism or Evolution: What to teach our kids about the Carbon Market?

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# Changing Fundamentals

*It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change - Charles Darwin*

- The enactment of the EU ETS directive was an extinction event for a European carbon tax
- Incorrect allocation was an extinction event for Phase 1 of the EU ETS
- The failure of Copenhagen was an extinction event for the Plan A of international climate architecture
- The Climate & Energy package was an extinction event for projects outside LDCs after 2012
- VAT fraud, theft and EUA recycling were extinction events for decentralised registries
- Is the Durban Platform, and consequential uncertainty in re global ambition, an extinction event for CDM/JI as well as those who specialise in these mechanisms?

# Evolutionary Forces in 2012 and beyond

*The global community is on the brink of losing the assistance which the carbon markets, and the CDM in particular, can and should provide –  
Report of the High-Level Panel on the CDM Policy Dialogue*

- Demand, and the lack thereof, is the primary existential threat to carbon markets
- The original normative goal of Article 2 of the UNFCCC, the imperative of which still drives action at national and regional levels
- The highly nested nature of existing carbon-based economies is a reactionary force
- The evolution of carbon markets occurs within the ethical context of the principle of common but differentiated responsibilities and other ethical claims built on historic responsibility (vis-a vis the reality of future emission pathways)
- Bottom-up social movements are increasing in significance and are often negative to the benefits of market mechanisms, c.f. the Occupy Movement
- Collective action dilemmas are currently preventing the formation of any top-down multilateral agreement

# Adaptation to Niche and the creation of new species of Market Mechanisms

*Emphasizes that various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries, must meet standards that deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort, and achieve a net decrease and/or avoidance of greenhouse gas emissions*  
– 2/CMP.17 at Paragraph 79

- Evolution of the CDM through PoA and standardised baselines and CDM reform
- Evolution of new UNFCCC species through the AWG-LCA
- Evolution of new sub-species of ETS: China, Australia, California etc
- Evolution of new genus such as REDD+ or NAMA crediting

But the niche for survival is built around demand, whether compliance or otherwise, without which any new species of market mechanism is doomed to extinction

# Ex-Post Adjustments: Deus ex machina?

*...when situations seem hopeless, and beyond the power of any natural force to amend, we may still anticipate salvation from a messiah, a conquering hero, a deus ex machina, or some other agent with power to fracture the unsupportable and institute the unobtainable – Stephen Jay Gould*

- The back-loading proposals currently under consideration by the Climate Change Committee would provide an ex post adjustment of the key variable in a cap-and-trade scheme, the quantitative target
- The price support intervention of the United Kingdom is another example of intervention to reinvigorate the price of carbon as a behavioural driver
- More controversially, a permanent structure for intervention in the market has been proposed in the form of a Carbon Bank, based on institutions designed to manage monetary policy
- Alternatively the Green Climate Fund could function, in part, as a clearing house for supply and demand and act de facto as the regulator of the international price of carbon.

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