



# IETA

INTERNATIONAL EMISSIONS  
TRADING ASSOCIATION

## How to get the private sector on board

17 May 2012, Bonn

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## Who are IETA

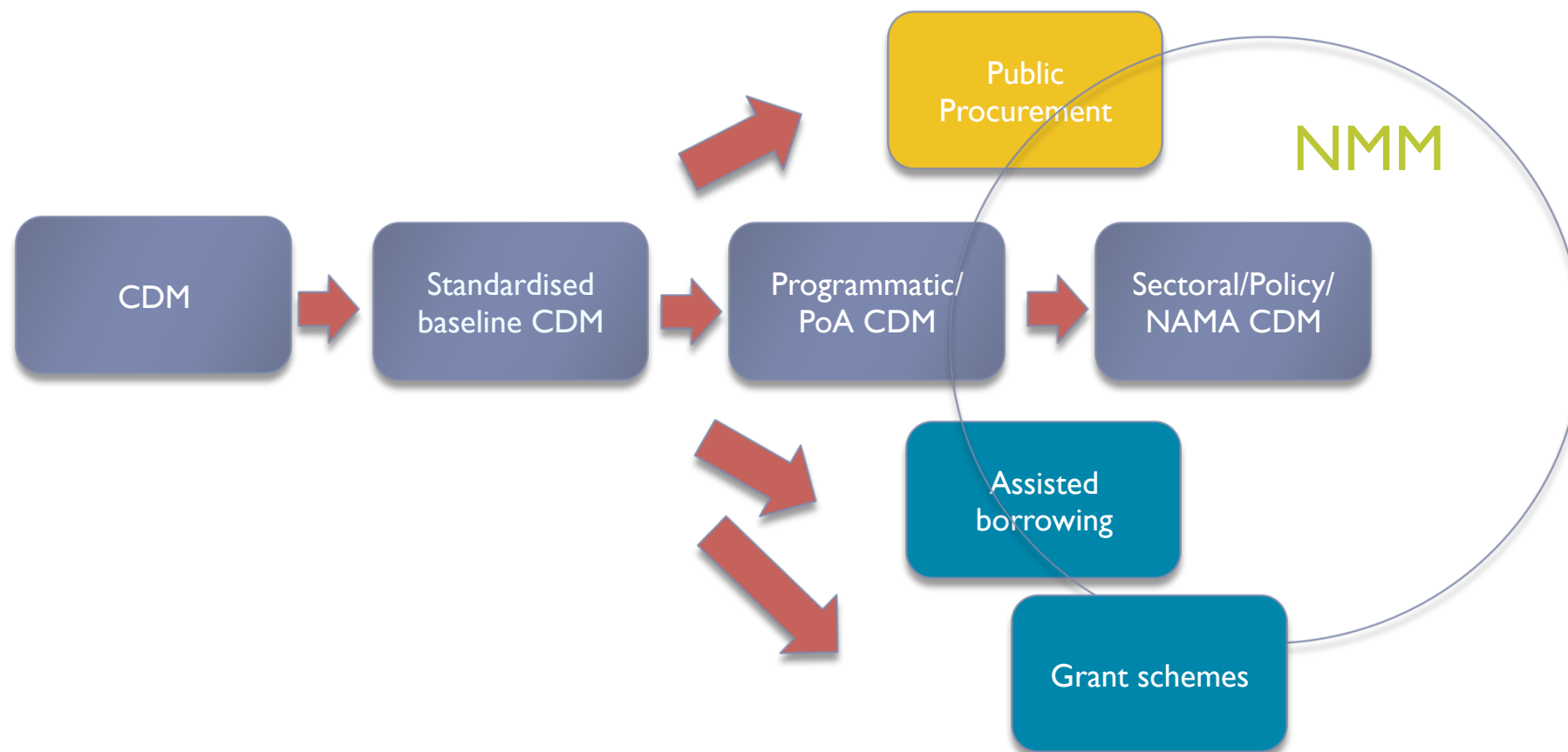


- Only cross–sector, international business organisation promoting emissions trading to secure environmental goals
- Founded in 1999
- Membership: ~150 companies
  - 50% emitters
  - 50% project developers, intermediaries, financial institutions, verifiers, legal firms
  - 60% EU, 30% US/Canada, 10% Asia
- Swiss non-profit organization
- Geneva, Brussels, Washington, Toronto
- Role in Australia, Japan, China, South Korea
- Cooperation with Worldbank (& other MDBs) and business associations

## Why it matters

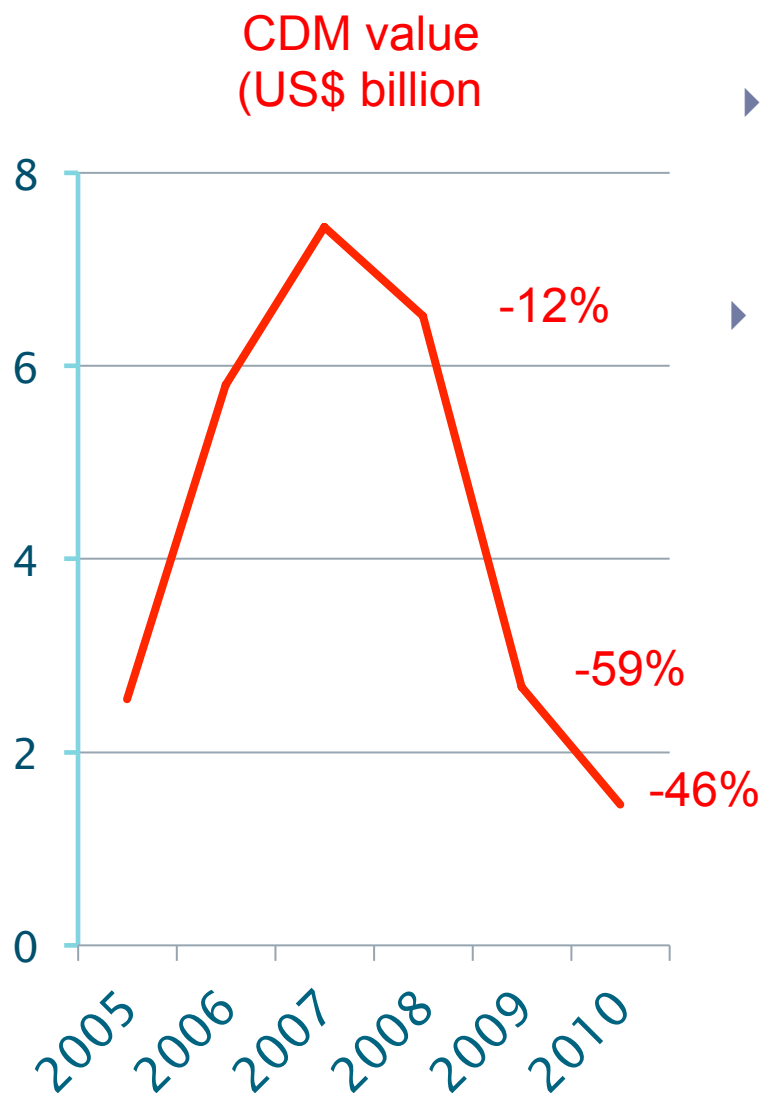
Amount (USD)	Purpose	Source
<b>\$15 trillion</b>	Total estimated additional investment (beyond BAU, redirecting capital from conventional to low-carbon technologies) required internationally in the energy sector between now and 2035, consistent with +2°C climate stabilization target.	IEA
<b>\$200 billion</b>	Approximate additional (low/no-carbon) energy sector investment required in developing countries in 2020, consistent with +2°C climate stabilization target.	IEA
<b>\$139-175 billion</b>	Annual mitigation costs in developing countries by 2030, consistent with a +2°C climate stabilization target.	World Bank
<b>\$265-565 billion</b>	Associated annual climate financing requirements by 2030 in developing countries, consistent with a +2°C climate stabilization target.	World Bank
<b>\$75-100 billion</b>	Estimated costs over the next forty years to support climate adaptation in developing countries consistent with a +2°C climate stabilization target.	World Bank
<b>\$9 billion</b>	Approximate amount of existing public contributions to climate change investments in developing world climate.	WEF
<b>\$110 billion</b>	Total sum of climate-related public sector commitment underway, even if delivered to their maximum ambition.	WEF
<b>\$350 billion</b>	Annual potential climate change financing shortfall.	WEF
<b>\$12 trillion</b>	Estimated amount of assets under control by institutional pension funds in 2010.	SWF Review
<b>\$3.5 trillion</b>	Estimated amount of assets under control by sovereign wealth funds in 2010.	SWF Review
<b>\$100 billion</b>	Under the non-binding Copenhagen Accord, the annual amount of climate financing committed by developed countries by 2020. Funding to come from a variety of public and private sources. Shared vision is +2°C climate stabilization goal.	UNFCCC

## What is an NMM, exactly?



Remains very unclear what is meant and how private sector will be involved

## CDM – not much left of a market



► Success to date:

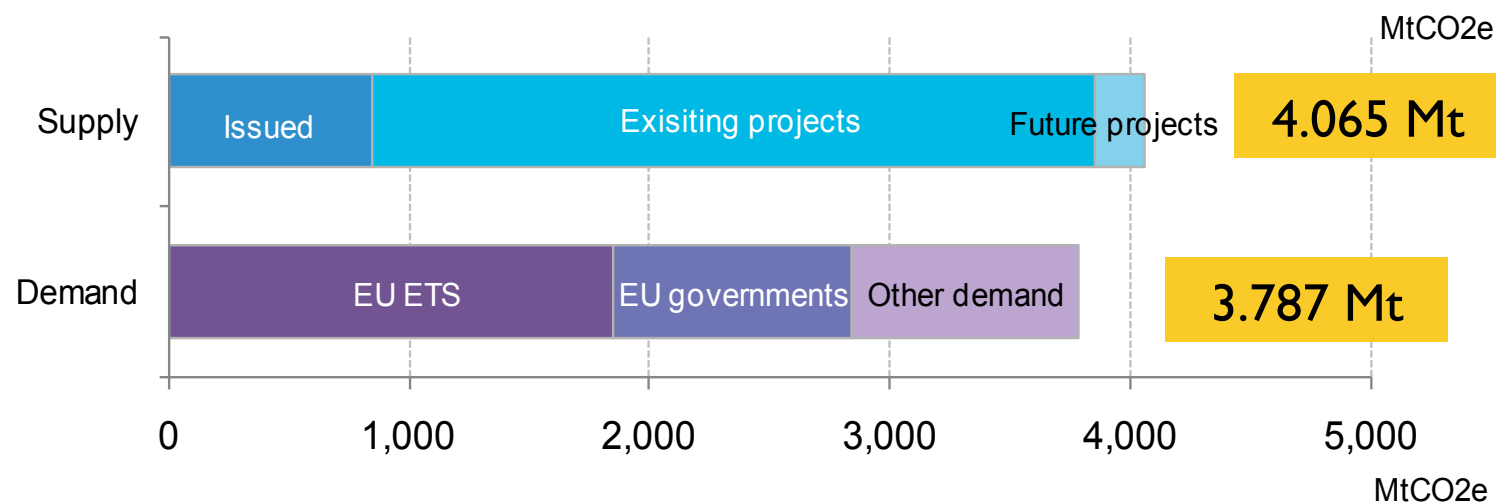
- Mobilized 140 billion USD of new funding
- Leverage of 5-20 for low carbon investments

► CDM activity declined because:

- reduced compliance needs due to slow economic recovery
- less origination activity as buyers seek predictable credits and less projects
- and lower demand by EU ETS

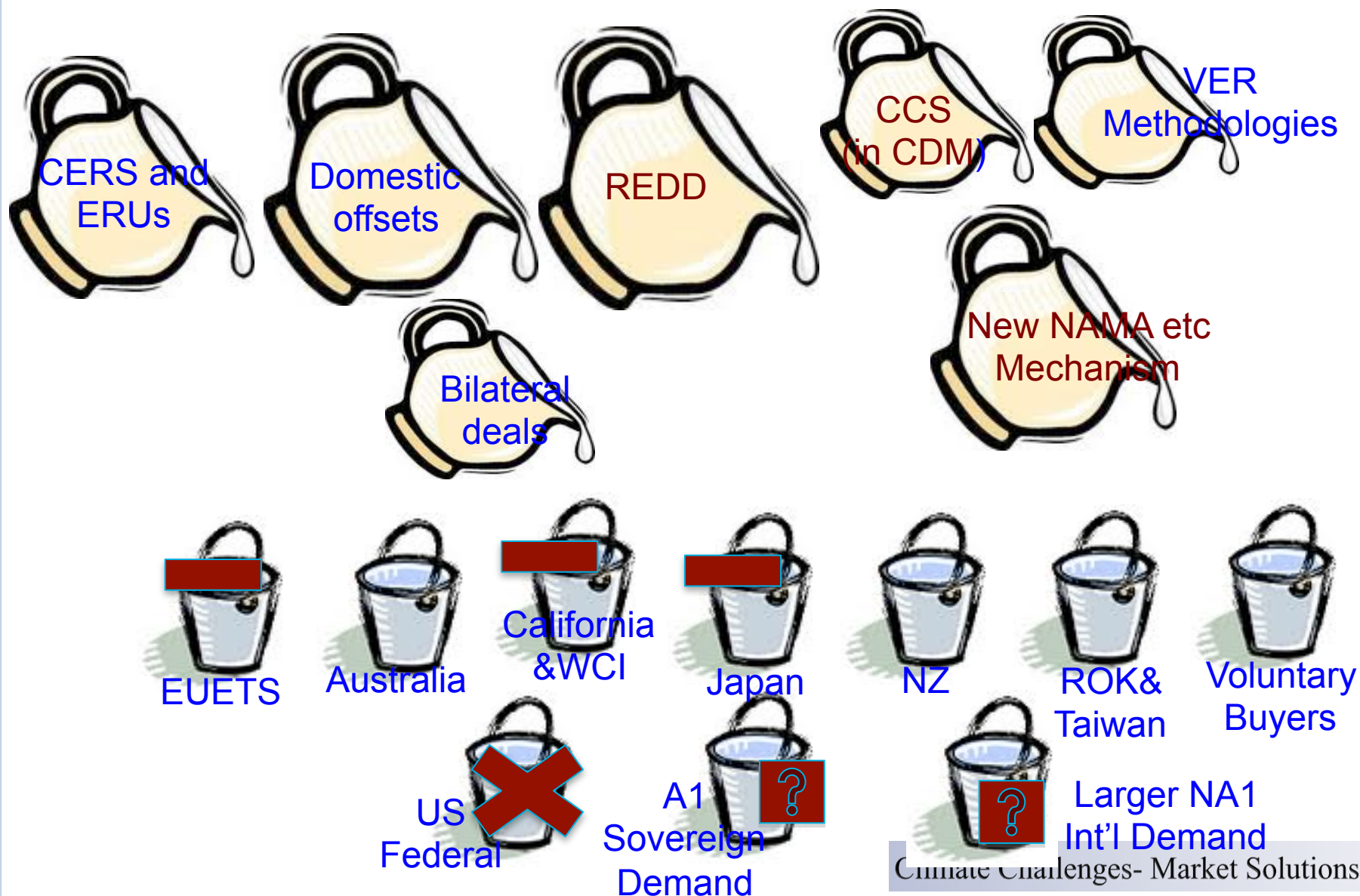
**Durban's improvements not enough to change downward trend**

# WHERE IS THE Demand Demand Demand????



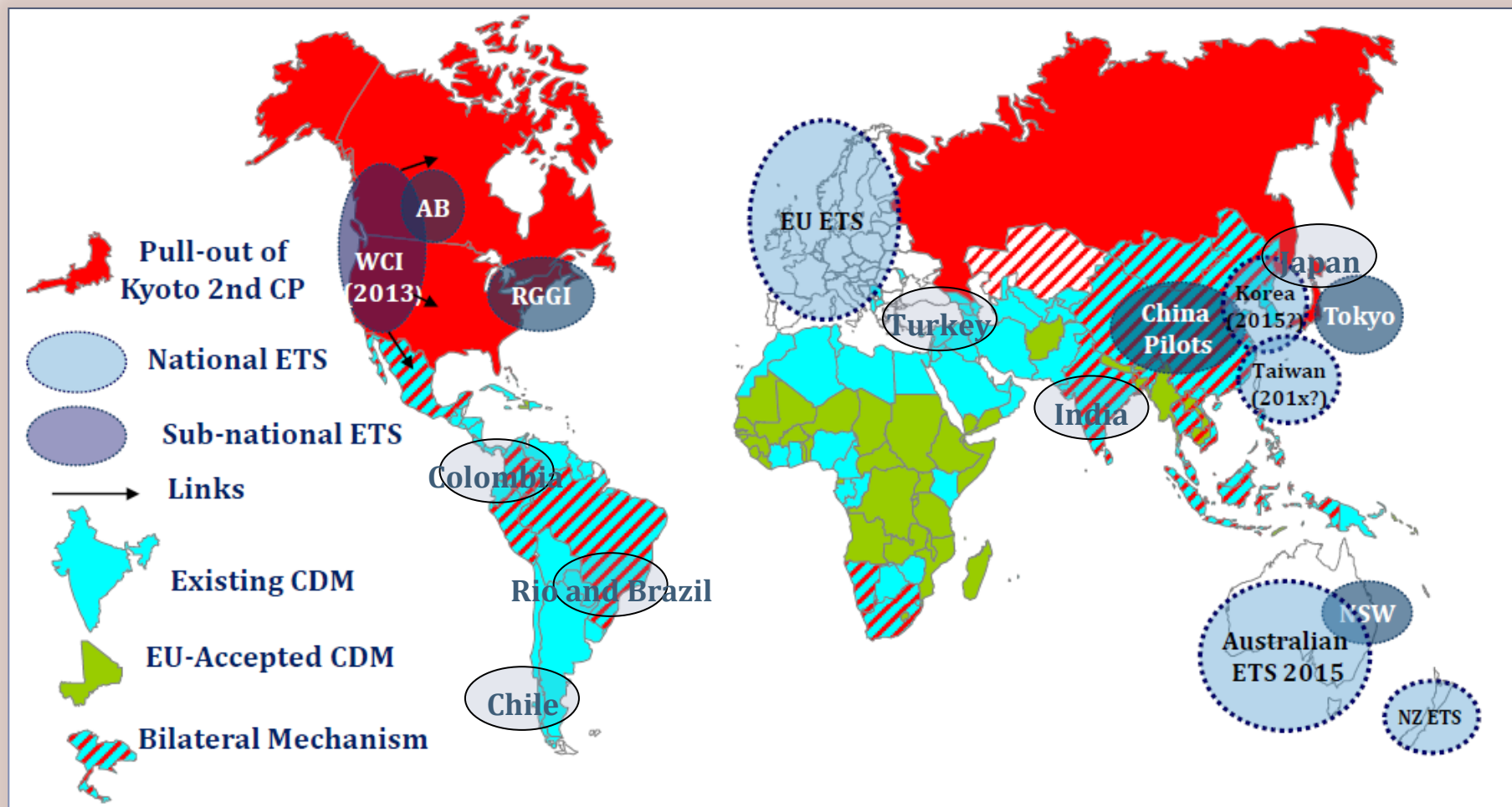
Source: Bloomberg New Energy Finance  
February 2012

# And new supply types keep on pouring





# Home-grown?



**ETS in preparation (PMR)**

Source: Perspectives



# How to get private sector on board

## IETA submission to AWG-LCA

- ▶ Focus on:
  - ▶ Improved **emissions data management** requirements, and
  - ▶ Standardising and aggregating the **quantification** of emissions reduction data
- ▶ Set up a **sectoral crediting mechanism** subdivided into:
  - ▶ Benchmark crediting : ERC at project level based on BM (per unit of output)
  - ▶ Policy crediting: ERC at national or regional level based on country-specific methodologies
  - ▶ Aggregate crediting: ERC at pre-defined sectoral or sub-sectoral level against BL
- ▶ With managed transitions from the CDM and along this progression
  - ▶ Set up **insurance systems** to cover unmanageable risks
  - ▶ Think like a lawyer – how to put the design in **contractual terms**
- ▶ **International conversion mechanism** to help fungibility and valuation
- ▶ **AND DON'T FORGET TIME: it took >10 years to get CDM going!**

# Thank you for your attention!

For more information & regular updates,  
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# BACK UP

# Private sector messages from NMM workshop

- ▶ A global, scaled-up involvement of the private sector primarily through market mechanisms is essential to achieve long term global emission reduction goals
- ▶ Market mechanisms should be a core part of a global agreement, assisting both developed and developing countries in achieving their targets and commitments at the lowest overall cost
- ▶ Pace of development of new market mechanisms will depend on there being demand for additional categories of emission reductions
- ▶ CDM still has an important role to play and provides important lessons for the design of new market mechanisms which should, where possible, leverage existing capabilities and infrastructures
- ▶ New market mechanisms should be based on top down rules as well as bottom up implementation, to encourage the creation of a global carbon market
- ▶ Baselines for new crediting mechanisms should both attempt to ensure environmental integrity of credits and reflect circumstances of developing countries
- ▶ Incentives must be right for host country, buying countries and private sector, and risks must be acceptable in order to attract the required investments
- ▶ Pilot projects and real experiments are key to progress towards new market mechanisms
- ▶ Both mechanisms design and capacity building will be improved by the direct involvement of private sector
- ▶ Urgent progress is needed on the international agenda, to avoid risks of fragmentation and loss of legitimacy

## Issues from Parties' submissions so far

- ▶ Not much of a « framework » - more some obvious principles
- ▶ EU sectoral crediting and trading still only substantive proposal; slice of unsupported reductions controversial. And « the role of the private sector is likely to change significantly »
- ▶ Concerns over offsetting persist (incl low-hanging fruit) – may signal discounting?
- ▶ Limited to Kyoto CP2 signatories?
- ▶ Covering, or at least coordinating, non-UNFCCC mechanisms – allowing for fungibility?
- ▶ Standards best developed by implementing Parties – or collectively?
- ▶ Referees and sanctions?



# Three Private Sector Elephant Traps

«approaches to enhance cost-effectiveness must meet standards that deliver additional mitigation outcomes and achieve a net decrease of **GHGs.**» *STOP!!* This appears to mean « going beyond offsets ». But only offsets (to compliance obligations with a price) can create economic value out of GHG reductions. Decide the ambition level, and then work with the private sector on reducing its cost.

## **EU objective of achieving higher levels of ambition from larger developing countries**

*STOP!!* For the private sector, this translates as a massive new tick-box for carbon deals: demonstrate a host country Government contribution/commitment to purchase - large and clear enough to meet NMM tests and/or tests for necessary developed country or IFI contributions

## **Building on the successes of the CDM**

*STOP!!* The private sector interests that need to be incentivised run a mile from the CDM



Climate

utions

## Beyond the CDM: Trust and Integrity

- ▶ CDM rules examine additionality, methodology, operation in painstaking detail
- ▶ But still suspicions of frauds, gaming, perverse incentives and inaccuracies – also in voluntary market – with political traction
- ▶ As offset-provider countries assume more responsibility, short-cuts like E+, E- won't satisfy
- ▶ Programmatic CDM already stretches capacity to the limit
- ▶ Increasing offset-based funding by one or two orders of magnitude simply cannot be done with same guarantees of integrity
- ▶ **Deadweight** will increase. Are we ready for this?
- ▶ And what if there are many offset systems? Can an NMM connect with all of them?





# Are there Non-offset Market Mechanisms?

- ▶ So far, most NMM ideas involving the private sector are just variations on the theme of creating value by generating reduction units usable to offset compliance targets
- ▶ Offsetting capacity, in developed and developing countries, eventually runs out – esp. if constrained by complementarity
- ▶ A wholly different approach to the buy side of the carbon market might derive from voluntary and obligated carbon footprint coverage, focussed on carbon accounting of companies' goods and services
- ▶ But meanwhile do not forget the use of market mechanisms to distribute funds collected by or from Governments (in Climate Funds or otherwise) – auctions, competitive procurement and carbon- incentivised payment systems



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## Ambition and trading in Japan

- Aim to reduce emissions by 25% by 2020 compared to 1990 seems out of reach
- ...premised on establishment of fair and effective international framework
- Policy and measures include:
  - Domestic Emissions Trading Scheme: Draft legislation ready, but buried for at least 2 years
  - Tax (on fossil fuels' carbon content) and FIT to come from 2012
  - Keidanren “voluntary” scheme has been powerful international driver
- Currently voluntary emissions trading scheme (JVETS) launched in 2005 (average price 2009: Euro 7.14)
- In future scheme: Entities may use domestic and international credits (s.t. qualitative and quantitative conditions)
- Variety of Japanese bilateral offset schemes in place of CDM under construction
- Tokyo ETS (April 2010): 1332 covered facilities, 40% of commercial and industrial sectors' emissions in Tokyo, allows for emission reduction credits from outside

## China and its pilots

- ▶ Background: The NDRC in Beijing has given China's provinces and municipal cities rigorous carbon-intensity targets to meet by 2015-some as high as ~20%
- ▶ What/When: 5 cities and 2 provinces (often those also running the low-carbon development trials) have been given a free hand by the NDRC to design carbon emissions trading systems, which will be locally introduced once the NDRC has approved them in 2013
- ▶ Who: Each pilot being developed by the local DRC (govt), university researchers, and newly formed 'emissions exchanges'
  - ▶ → **Very little engagement with industry, hence IETA's workshop in Beijing 2 weeks ago**
  - ▶ → Cap will likely be atypical: power in some pilots (Guangdong/Hubei), buildings in others (Beijing, Shanghai). 75% of China's emissions come from the power/heating, iron/steel, buildings, oil/gas and cement sectors



Source: 'Nature and Climate Change'

Climate Challenges- Market Solutions

## So what's next for China?

- ▶ China has a reasonably good starting point to develop the 'M' and 'R' .What about the 'V' ?
- ▶ Very little financial products available for commodities trading-will also need to be developed for carbon
- ▶ NDRC recently pushed back the commencement date by 1 year for the pilots (2014) and a national scheme (2016)
- ▶ CDM will be used under a 'China CER' AKA 'CCER' although details of that are opaque
- ▶ Consumer costs are a big no-no
- ▶ Draft Beijing ETS guidelines call for mandatory participation for corporations with emissions above **10,000 tonnes on average per year in the 2009-2011 period.**
- ▶ Linking amongst provinces will come later-**big mistake**

## South Korea! A reason to party in Canberra....

- ▶ Background: Parliament passed a bill that will launch a market by Jan 1, 2015
- ▶ What/When: 30% reduction in CO<sub>2</sub> by 2020 from business-as-usual levels, equivalent to a 4% cut from 2005 levels
- ▶ Who: Heavy polluters (450 companies) with annual CO<sub>2</sub> emissions of +125,000 tons will have to participate
  - **Industry opposition still real and afraid of costs, but** learning process has started: Companies are studying GHG emissions and reduction options
- ▶ Top-tier polluters will be excluded from the current “cap-without-trade” scheme that already is under way. The current cap requires large emitters as of Jan. 1, 2012, to meet annual reduction targets under industry-by-industry quotas
- ▶ Korea may allow international offsets, but too early to be sure (still contentious). Ministry of Strategy and Finance is overseeing a committee that will work out details for emissions trading in Korea.

## Mexico: Latin America's 1<sup>st</sup> domestic carbon market

- ▶ Background: Mexican Senate passes 'General Law on Climate Change' launch a market by Jan 1, 2015
- ▶ What/When: 12% decrease in absolute emissions below 2005 levels by 2020. It will cut GHG emissions 30% below business-as-usual levels by 2020 and 50% below 2000 levels by 2050.
- ▶ Who:
  - Industry OK once mandatory caps and strict targets removed
- ▶ 80% of cuts expected to come from energy production, efficiency and forestry measures.
- ▶ Bill does not yet contain details about how the emissions market will operate, government Commission set up to explore
- ▶ Both Mexico and Korea are OECD countries, G20 members and participate in the World Bank Partnership for Market Readiness (Korea as a donor, Mexico as an implementer)



## California: Overview & Timeline

- California's Global Warming Solutions Act (AB 32) passes in 2006, requiring emissions to decrease to 1990 levels by 2020, a 25% reduction statewide
- AB 32 designates the California Air Resources Board (ARB) to develop reduction regulations and design the emissions trading market
- CARB passed preliminary draft regulations December 17, 2010
- Market start date is currently set for January 1, 2013
- First year is a “stress test” of the system with full compliance to begin in 2013
  - IETA exploring joining lawsuit over offset use



## ARB 32 - How will it work?

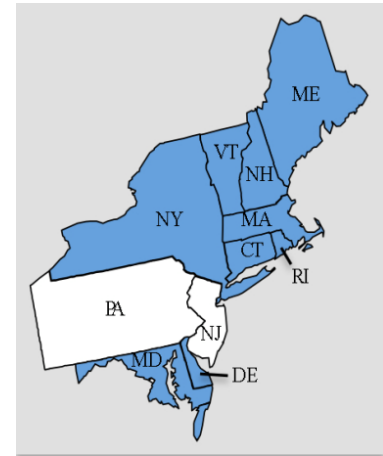
- **Compliance Period:** 3-year
- **Who is Covered:** Only electricity and industrial sources initially, phasing in fuel distributors in 2015
- **Allocation:** "Slow start" approach, significant free allocation moving to greater auction volumes
- **Auction:** 1<sup>st</sup> compliance period, \$10/t floor price and \$40/t soft ceiling price
- **Price Containment Reserve:**
  - Contains 4% total allowances issued
  - One third of reserve available for purchase at three set prices: \$40, \$45, \$50
- **Banking:** Unlimited banking subject to holding requirements,
- **Borrowing:** Not permitted (unless to pay the penalty for non-compliance)
- **Offsets:** Entities can use up to 8% of their compliance obligation with (mainly domestic) offsets
  - Currently accepting offsets from four project types: Livestock; urban forestry; Ozone Depleting Substance Destruction; and forestry
  - Can come from US, Canada, Mexico (MoU with Acre, Brazil for REDD – not before 2014)
  - Possible to add further countries / protocols, but not expected soon

	2013	2015
Cap	159.7 mt	394.5 mt
Offset	12.78 mt	31.56 mt

**Max offset use  
period 1: 26 mt**

## RGGI: Not wholly negligible

- Regional Greenhouse Gas Initiative (RGGI) is a regional GHG cap & trade program between 10 Northeastern states to reduce emissions from the power sector 10 percent by 2018
  - Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island and Vermont
- First mandatory market-based effort in the US to reduce GHG emissions launched in 2009
- Full Auction, with revenue channeled into RE/EE
- RGGI Offsets limited to 5 eligible project types, but price triggers in effect
- Governor Chris Christie has moved to pull New Jersey out of the program though he faces challenges from the State Legislature.
- Maine Governor Paul LePage wanted out, but seems to have given up
- A 2011-2012 scheduled review process has begun with a stakeholder meeting on September 19<sup>th</sup>.  
Big question - how much will the cap be reduced?
- Spring 2012: Present the comprehensive set of recommendations to stakeholders with potential changes to the RGGI program during the second control period (2012-2014)
- No-one expects big changes under current political circumstances. But over time....



## Australia's emitters – thirsty new kids on the block

- ▶ The top 10 emitters in the Australian power sector have over 160 Mt of annual emissions covered by the new Clean Energy Package trading scheme

*(2009/10 emissions in millions of tCO<sub>2</sub>e)*

- ▶ CS Energy 16.8 ; Delta 20.5 ; Eraring 12.1 ; Great Energy Alliance 19.8 ; International Power 17.2 ; Loy Yang 10.2 ; MacGen 23.4 ; Stanwell 15.7 ; TRUenergy 15.6
- ▶ Australian resources companies expect major growth in emissions in line with new mining and gas projects
- ▶ Most of these companies have no experience with international carbon markets
  - ▶ They can see international prices at record low levels
  - ▶ The political uncertainty is diminishing, but still very real
  - ▶ Floor prices and unit eligibility risks are key hurdles

