

Towards international carbon market

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- Stock-taking
- The issue
- A long term vision
- Concrete steps forward
- Proposal



The international carbon market

- **Where we are:**

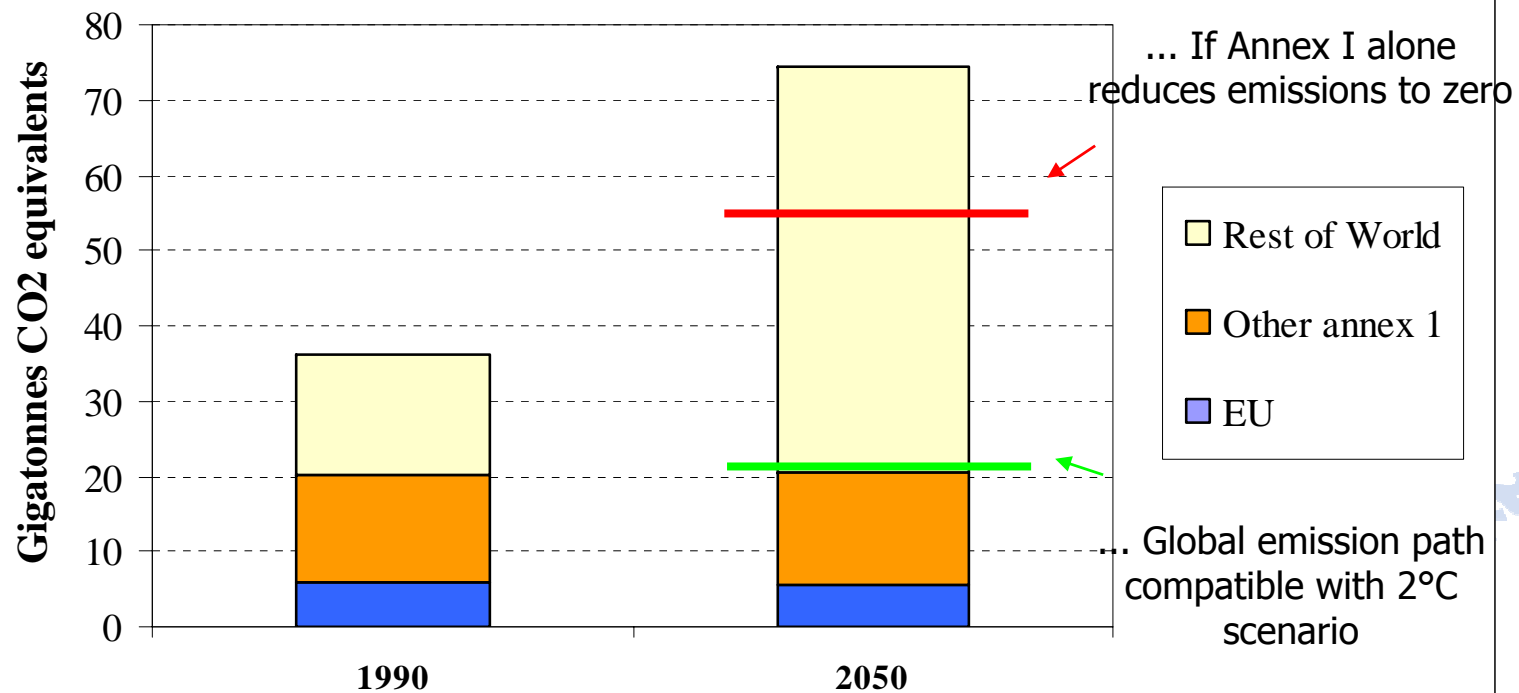
- The EU ETS has been the core of the 'global carbon market'
 - An absolute emissions cap covering 30 countries for around 10,000 installations and emissions from aircraft operators
 - EU ETS and EU Member States have provided the main demand for Clean Development Mechanism (CDM) credits

- **Where we need to go:**

- We must limit global temperature increase to below 2°C
- The EU contributes around 14% of global GHG emissions
- All countries need to take more action to reduce emissions
- Emission trading systems are a cost-effective way to do so

The issue: “Offsetting” alone cannot solve climate change problem

Figure 1: Projected development of greenhouse gas emissions in different regions of the world



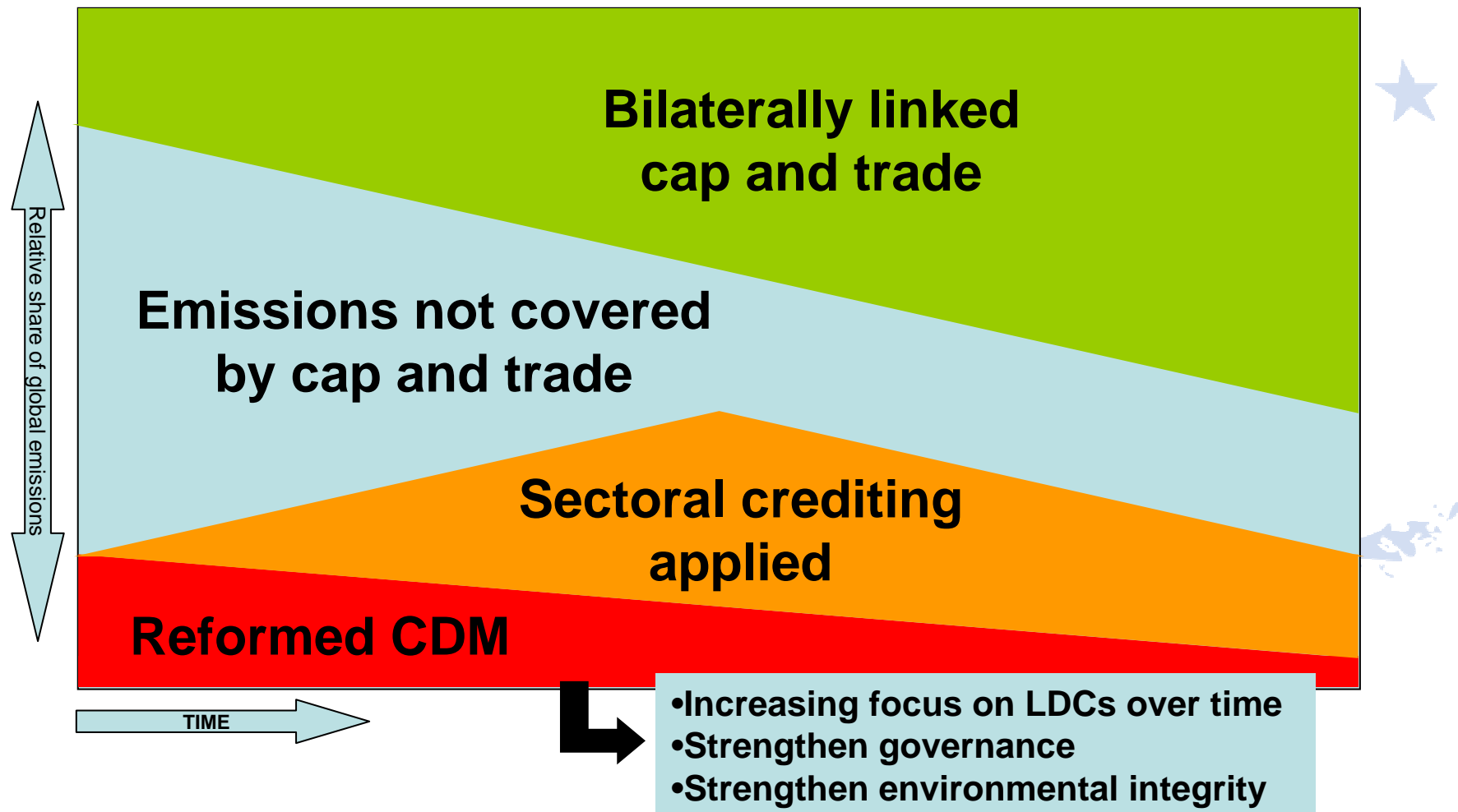
Source: Greenhouse gas reduction pathways in the UNFCCC process up to 2025, CNRS/LEPII-EPE, RIVM/MNP, ICCS-NTUA, CES-KUL (2003).

The issue: another approach in addition to incremental improvements needed

There is a need to:

- Scale up the effort: move beyond project scope
 - creating a more comprehensive and broad ranging price signal
 - providing incentives for setting up sector-wide cost effective mitigation policies in host countries
- Increase the environmental ambition level: gradually move away from pure offsetting approach
- Leverage more private capital
- Lower transaction costs/red tape
- Reduce risk of carbon leakage: provide level playing field
- Facilitate a move to a comprehensive multi-sector cap-and-trade system

A vision: carbon market transition



A vision: offsetting via sector-wide mechanisms to cap-and-trade

Offsetting	Crediting	Cap-and-trade
CDM	SCM	ETS
Project-based Single installation	Sector-wide Multiple installations	Multi-sectoral arrangement
Voluntary participation	Voluntary participation, mandatory for installations in sector	Mandatory coverage
Every tonne reduced from baseline can be monetised	Credits beyond agreed baseline, more ambitious than business as usual emissions	Allowances sold only after some reductions done, full pricing with auctioning

A vision: Concrete steps forward

- Build an international carbon market
 - To drive investments and achieve global mitigation objectives at least cost
 - To generate important financial flows to developing countries.
- Concrete steps:
 - Link compatible domestic cap-and-trade systems to develop an OECD-wide market by 2015
 - New sector-wide market mechanisms for (advanced) DCs as a step towards cap-and-trade systems
 - Reform and better focus the CDM
- Cancun should anchor this vision in:
 - Providing basis for new market mechanisms
 - Promoting piloting new market mechanisms to gain experience

Concrete steps forward: Domestic Policy Development

- Any mandatory GHG emission trading system with absolute emission caps, in any country or in sub-federal entity, can be linked to the EU ETS
- Many countries, including emerging economies, have now pledged more action to reduce emissions and are looking at how to do it
- Emission trading systems are a cost-effective way to meet domestic emissions reductions targets
- Cap and trade in place or in discussion in US (RGGI and WCI), Japan, Switzerland, New Zealand, Australia and others: could allow putting in place an OECD-wide market
- ETS interest /developments in China, South Korea, Chile, Mexico and India...
- EU working with others to share its ETS experience

International Carbon Action Partnership ICAP

- Exchange among public authorities on technical/non-political aspects of cap-and-trade systems to improve design and promote compatible systems
- Members:
 - EU: European Commission, Denmark, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, United Kingdom
 - North America: states from Regional Greenhouse Gas Initiative and Western Climate Initiative
 - Others: Australia, New Zealand, Norway, Tokyo Metropolitan Government
 - Observers: Japan, Korea and Ukraine
- Summer schools on ETS for developing countries:
 - 2 weeks of ETS design, practical implementation + site visits
 - Lecturers: leading specialists in the field
 - Free of charge, but competitive application process

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- The EU can use its ETS legislation as an incentive to:
 - work with interested developed and developing countries towards sector-wide mechanisms;
 - develop and propose measures for improving the quality requirements for credits from project-based mechanisms.
- Need for practical experience and pilot programs at limited scale to test how such mechanisms could work most effectively

- Issue: offsetting alone will not give the long term solution to climate change
- Vision: making the international carbon market fit for the future and evolve from a voluntary project-based offset system into a fully-fledged mandatory cap-and-trade system
- Transition: providing basis for new market mechanisms has the potential to stimulate policy action
- Proposal: learning by doing to create confidence