



Role of carbon market to enable scaled up emission reductions and finance

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International carbon market

- **Where we are:**

- The EU ETS has been the core of the ‘international 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
- Scaled-up carbon market mechanisms have the potential to deliver large part of the financing needed for abatement



Key messages

- 4. The private sector is expected to provide a significant share of international climate finance. Carbon markets are an effective way of channelling and scaling up private investment, and enabling public funding, i.e. in EU ETS:**
 - Auctioning revenues
 - New entrants reserve set-aside
- 5. A comprehensive international agreement needs to be underpinned by flexible mechanisms and their links with regional or domestic cap-and-trade systems.**



Illustration: role of international carbon market in energy and industry

	Total incremental costs 2020 (Billion €, 2005 prices)		
	No global carbon market	Gradual global carbon market	Perfect global carbon market
Carbon price per ton CO ₂ in developed countries ETS, 2020	72,20 €	43,60 €	22.0 €
World	213	152	113
Developed countries	166	81	39
Developing countries	48	71	75

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http://ec.europa.eu/clima/documentation/international/future_en.htm



Illustration cont.: role of international carbon market in energy and industry

Carbon trade increases additional costs in developing countries from € 48 billion to € 71 billion, an increase by € 23 billion.

But this generates a revenue stream of 38 billion € through the carbon market more than compensating the costs increase!

	Total incremental costs 2020 (Billion €, 2005 prices)	
	Not taking into account revenues or expenditure for carbon trade in 2020	Taking into account revenues or expenditure for carbon trade in 2020
World	152	152
Developed countries	81	119
Developing countries	71	33

The carbon market thus not only compensates costs but generates also rents on achieved reductions.
These rents can be used to stimulated own appropriate action



Another approach in addition to incremental CDM 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
- Facilitate a move to a comprehensive multi-sector cap-and-trade system



A vision: carbon market transition

