

EU and the Challenge of a Global Carbon Market

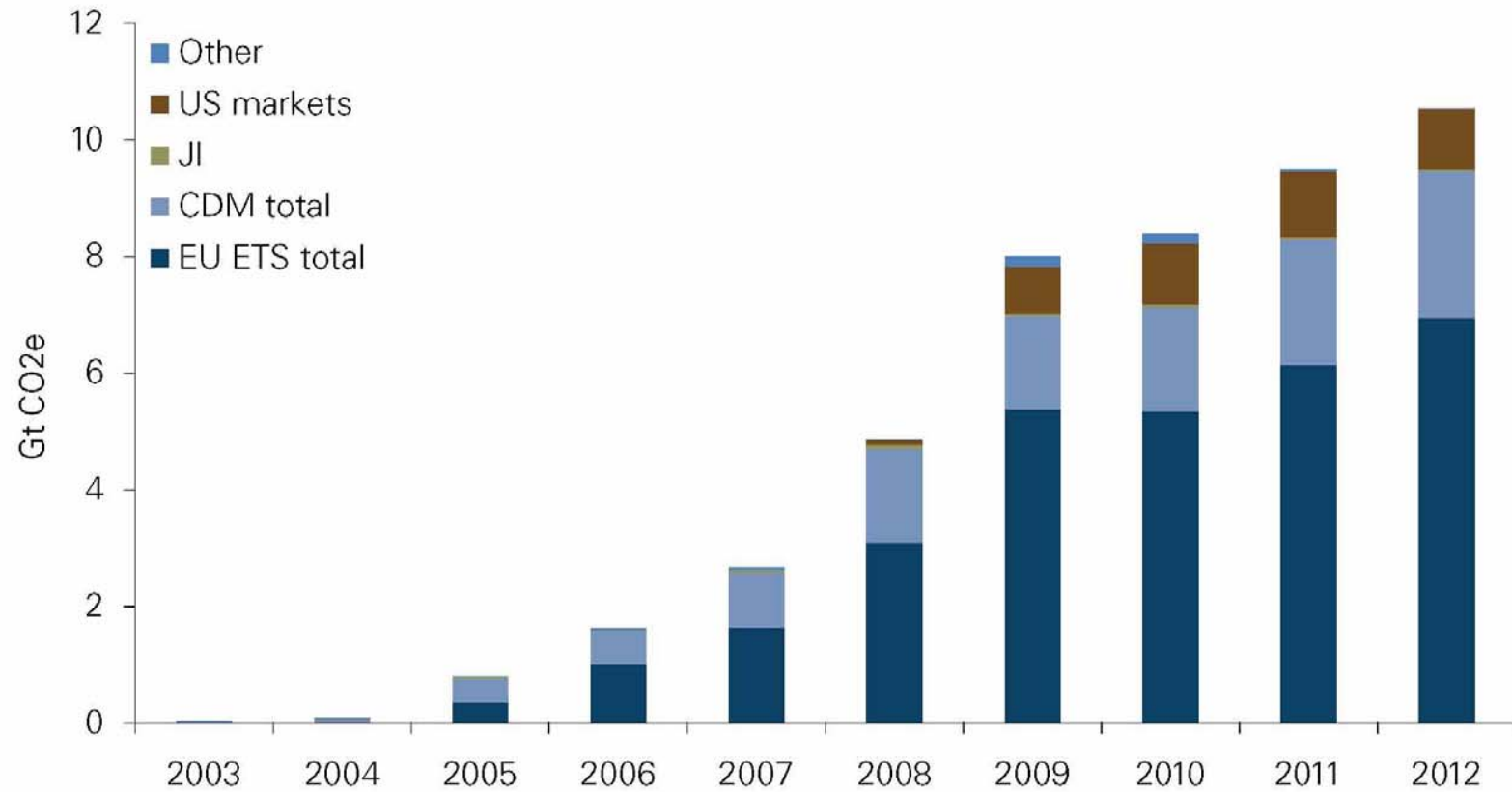
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Trading mechanisms

- The Kyoto Protocol
 - Cap-and-trade between industrialised countries
 - Joint Implementation (JI), projects in industrialised countries
 - Clean Development Mechanism (CDM), projects in developing countries
- EU Emissions Trading Scheme (EU ETS)
 - Allocation to 13.000 installations in 27 EU countries
 - Use of credits from JI and CDM
- Voluntary US market
 - Long-term hedging of future cap-and-trade costs

Stairway continues?

Carbon market growth, 2003-09 (observed) and 2010-2012 (forecast)



Lesson One: It works!

Mechanism	Volume 2005-2009 (Mt/year)
CDM	72
Coal-to-gas switching in the European power sector	30
Suppressed power demand in Europe (6%)	78
Industrial abatement in Europe	20
AAU-trading and JI	~0
Voluntary markets	~0
Total	200



It is not perfect, but no other instrument has delivered comparable reductions

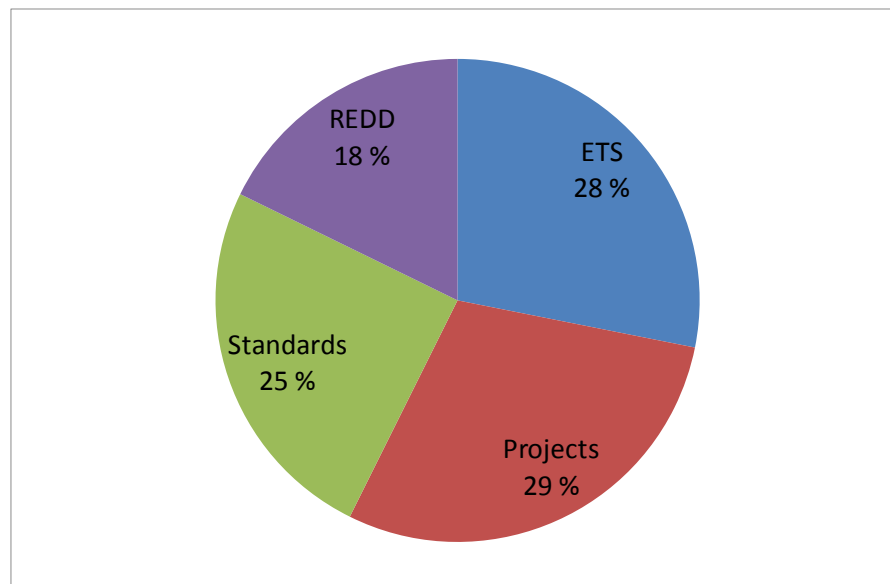
Four other lessons

- Small does not work
- National institutions are no better than international ones
- Private demand is needed
- Innovation, but not technological change

Implications for the post-2012 regime

- An international agreement might help but will only be effective to the extent it creates private demand
 - The limits to international diplomacy and national targets
 - Was the Kyoto Protocol an exception?
- Global standardisation needed to create an efficient market
 - The importance of maintaining CDM and JI
- Cap-and-trade is not the only solution
 - Requires advanced institutional requirements
 - Not good at driving technological change

Optimal instruments (global emissions 2010)



Additional mechanisms required to motivate innovation



Can the international framework facilitate development of these instruments?

Challenges for the EU in the negotiations

- USA, China: not going to ratify anything with teeth
- Russia and Japan are hostile to the Kyoto Protocol
- Proposals for bilateral mechanisms are popping up
- Targets are vague and non-binding
- A legally binding agreement seems far off

Challenges in creating a global market

- No strong international targets that will translate into private demand
- No new internationally agreed mechanisms
 - Sector trading and sector crediting seems far away
 - REDD not usable for private players
- A plethora of bilateral mechanisms
 - Lack of liquidity will lead to inefficient markets
 - Additionality far from guaranteed
 - Impossible to monitor

What could EU do to boost the international market?

- Ban CDM HFC projects from the EU ETS
 - Boosts the demand for CDM projects
- Strengthen their target
 - Show leadership
- Inscribe new targets in the Kyoto Protocol
 - Will force Japan to do the same?
- Work with linking
 - China, California, Ukraine, Japan

Thank you!

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