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TRADING ASSOCIATION

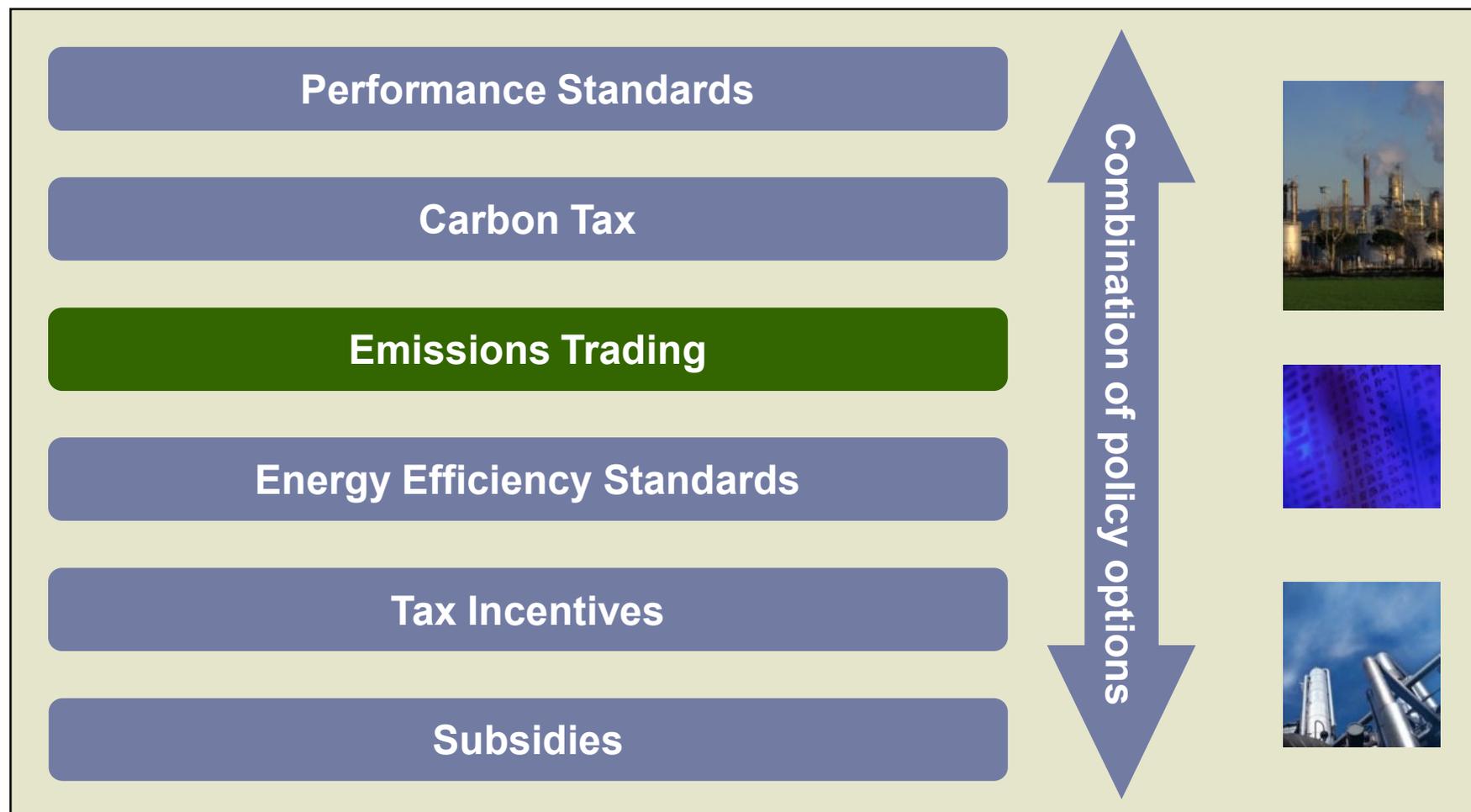
EU ETS/global carbon trading: integrity and future prospects

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Who are IETA ?

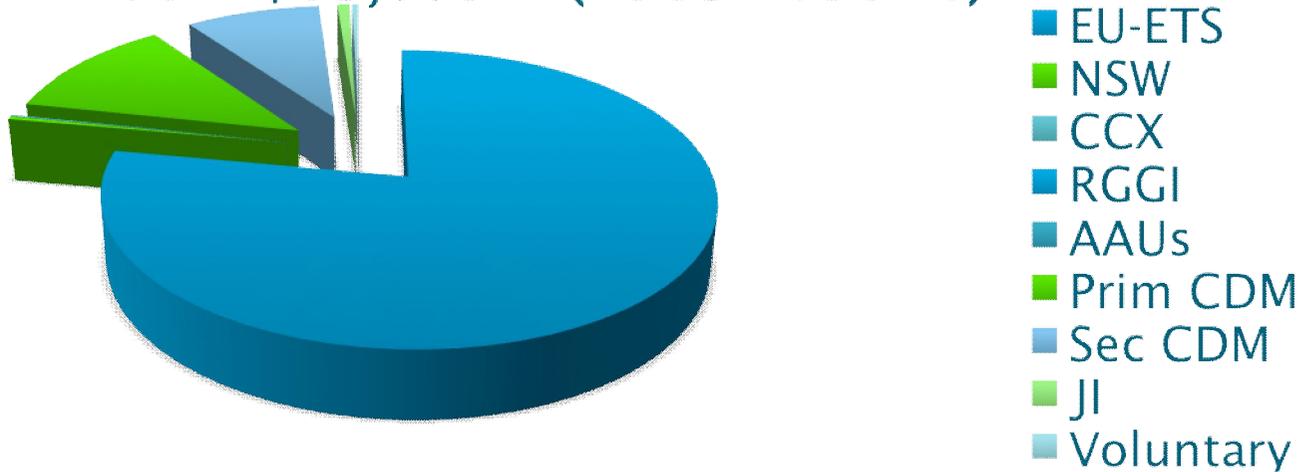
- ▶ Only cross–sectoral, private sector international organisation promoting emissions trading to secure environmental goals
- ▶ Founded in 1999
- ▶ Membership: ~170 companies
 - ▶ 50% emitters
 - ▶ 50% project developers, intermediaries, financial institutions, brokers, verifiers, legal firms
 - ▶ 60% EU, 30% US/Canada, 10% Asia
- ▶ Swiss non profit
- ▶ Offices: Geneva, Brussels, Washington, Ottawa
- ▶ Role in Australia, Japan

Typical carbon policy options

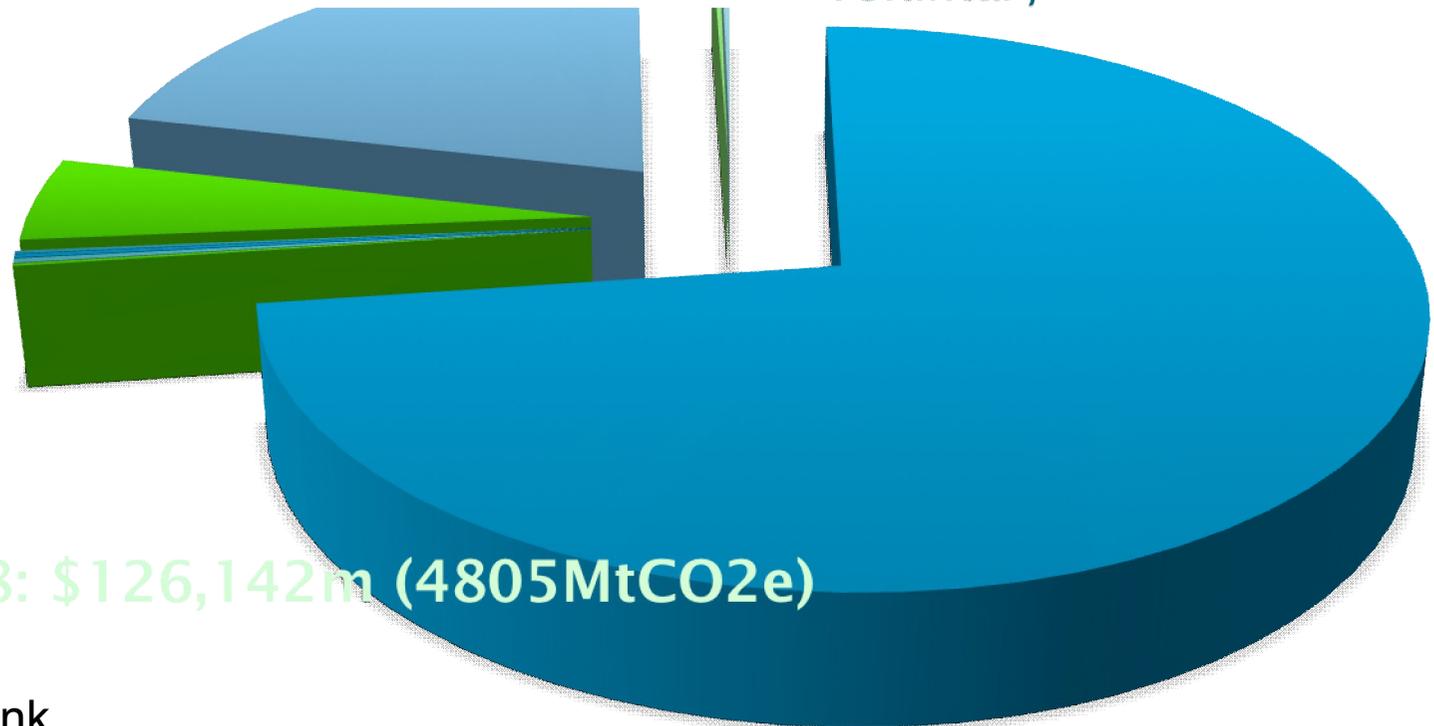


Carbon Market growth – led by EUETS

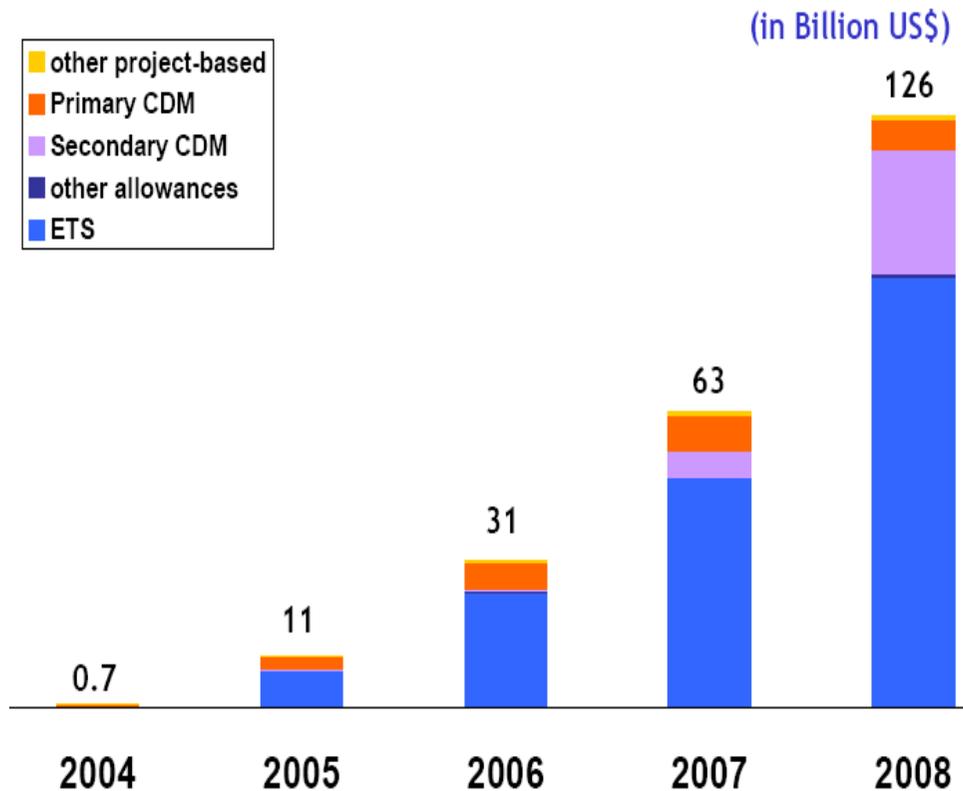
2007: \$63,009m (2983MtCO₂e)



2008: \$126,142m (4805MtCO₂e)



Global Carbon Market Growth

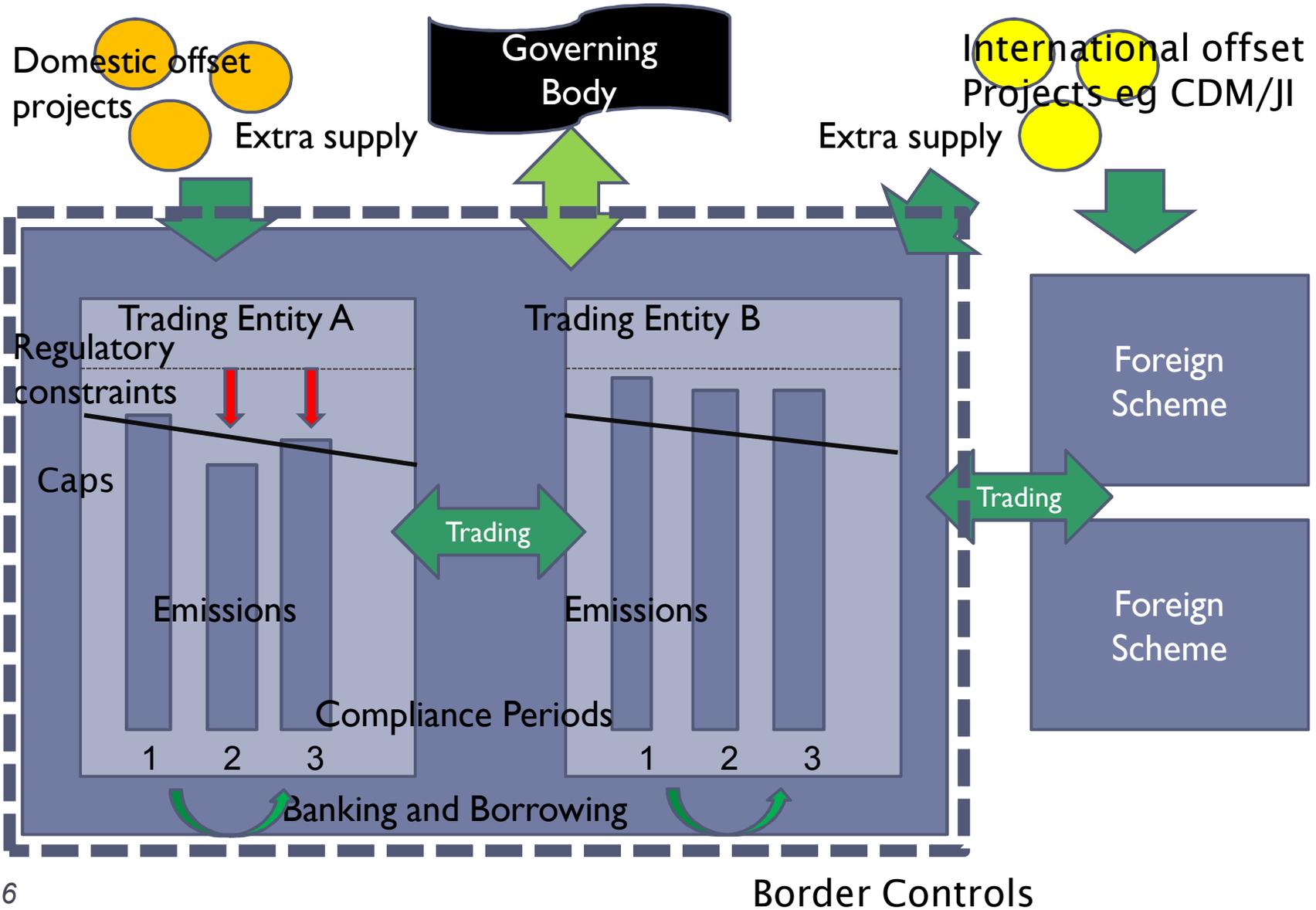


Market Values 2008

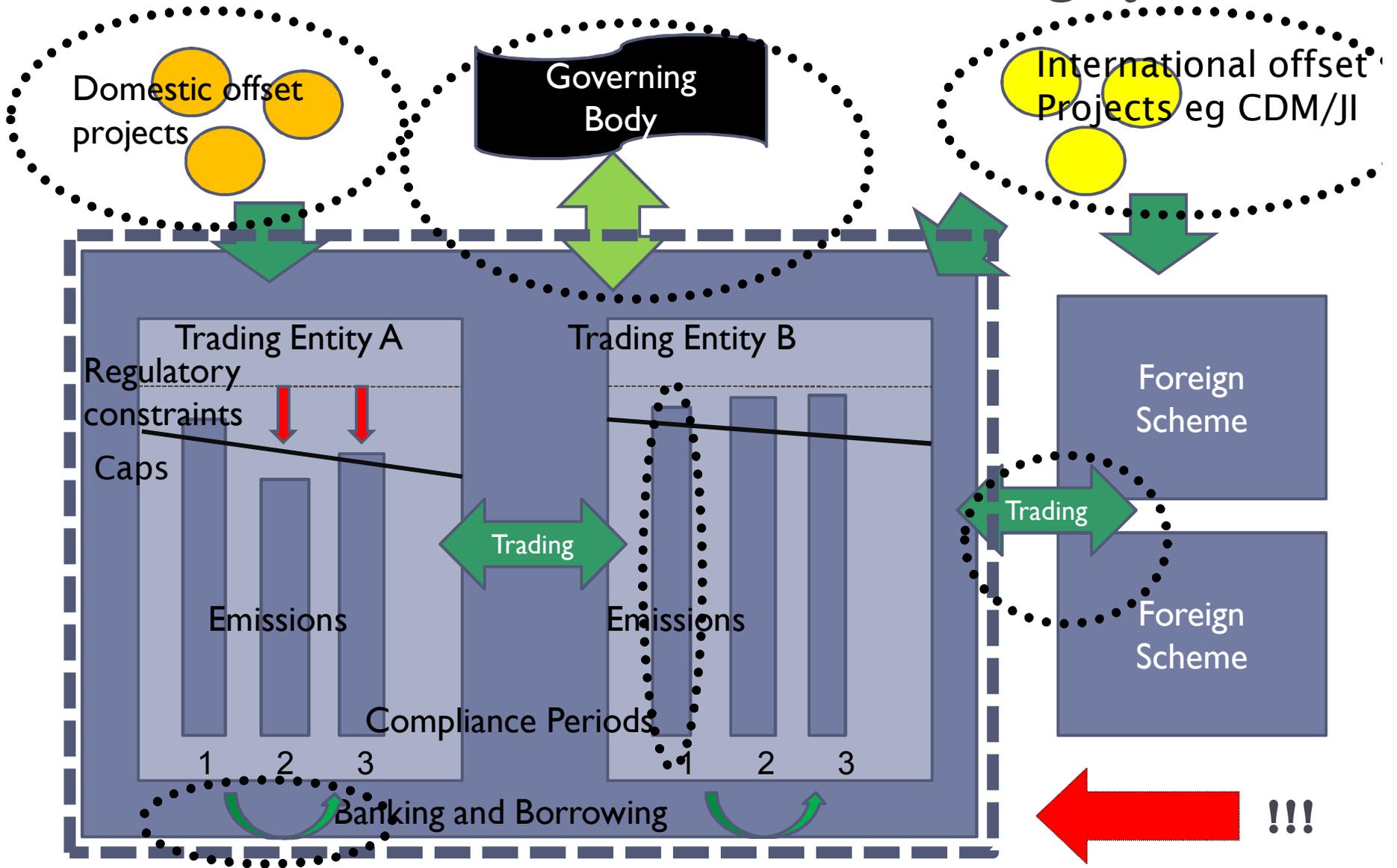
EU Allowances:	\$92 billion
Primary CDM:	\$6.5 billion
Secondary CDM:	\$26 billion
Other:	\$1.5 billion
Total Market:	\$126 billion

Source: World Bank, State and Trends of the Carbon Market 2009 (May 2009)

Elements of an Emissions Trading System



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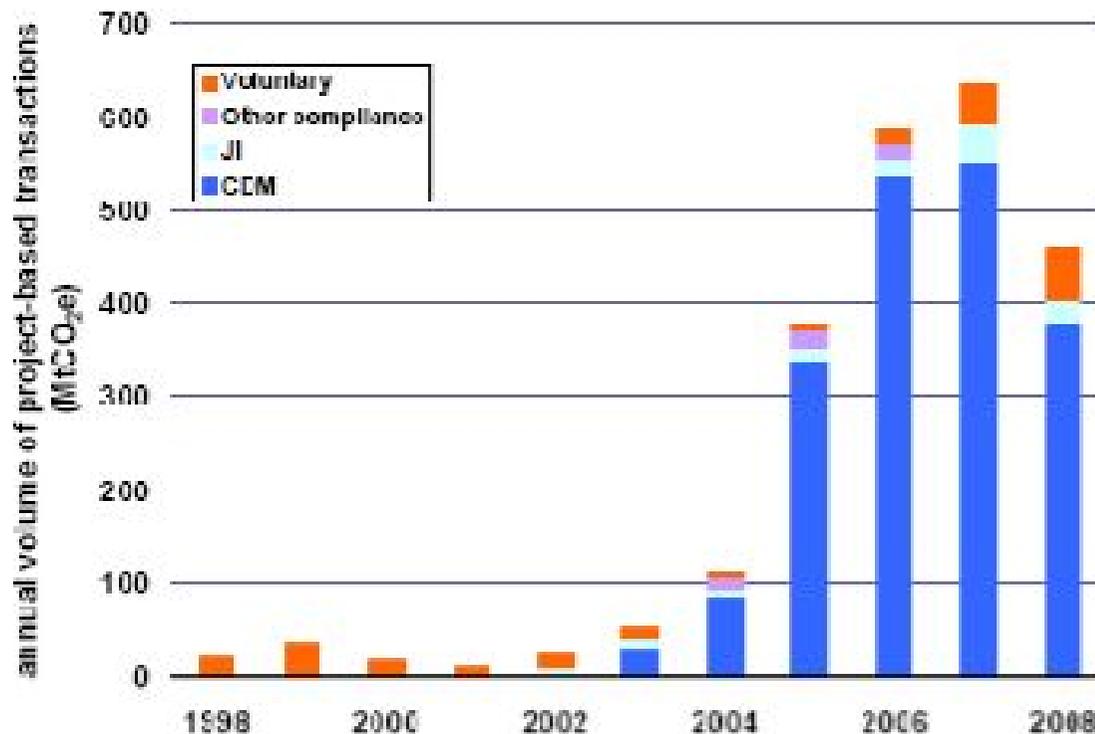
Border Controls ?

Design issues of emissions trading

- ▶ Allocation
- ▶ Cost Containment Provisions: Domestic and Int'l offset usage, banking and borrowing, oversight, etc.
- ▶ Coverage – Broaden the scope?
- ▶ Economic impacts – Border controls?
- ▶ Competitiveness impacts – the EITE sector
- ▶ Including new technologies, techniques and sectors, i.e. forestry, CCS, transport, etc.
- ▶ Maintaining environmental integrity - Monitoring, Reporting, Verification
- ▶ Carbon Accounting

CDM/JI Market Trends

Figure 2: Annual Volumes (MtCO₂e) of Project Based Emission Reductions: Transactions (vintage up to 2012)

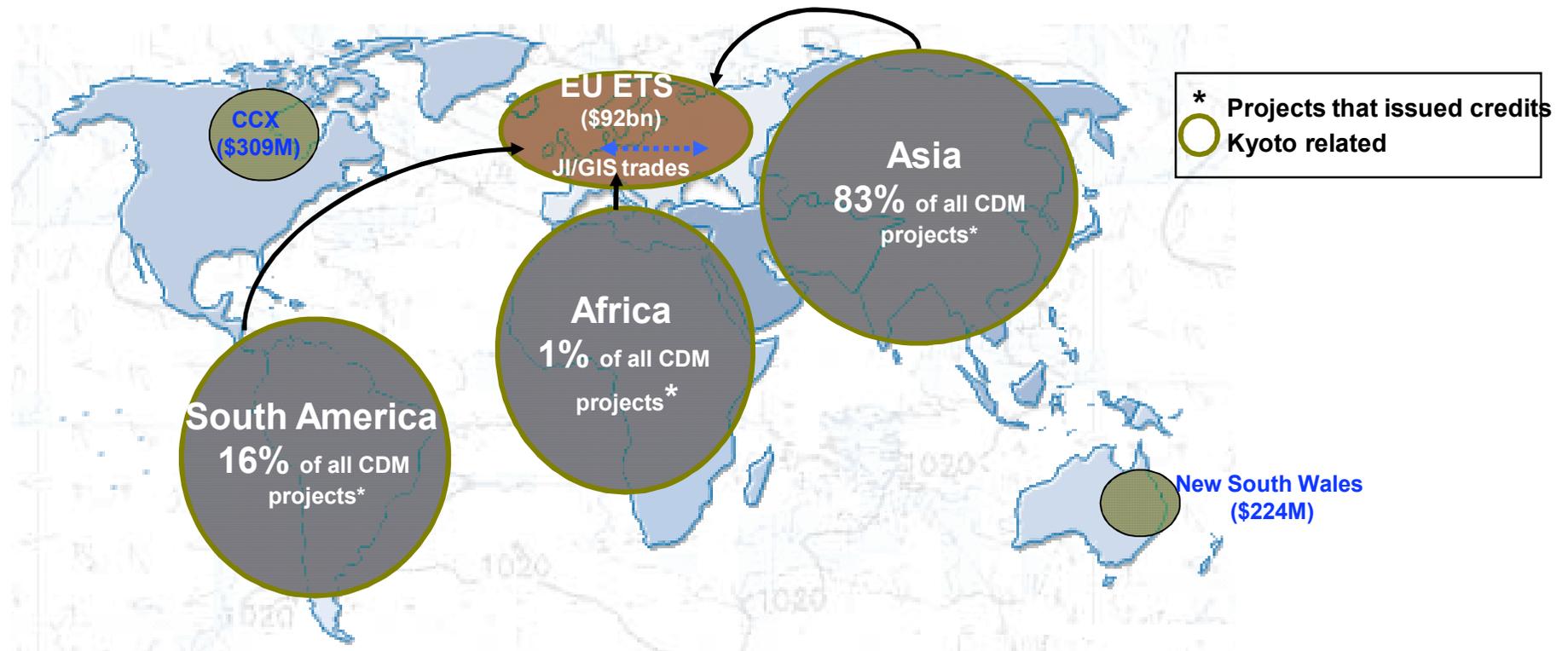


- Lower compliance needs over 2008-12
- Competition from AAUs
- Uncertainty of rules beyond 2012

Source: World Bank, *State and Trends of the Carbon Market 2009* (May 2009)

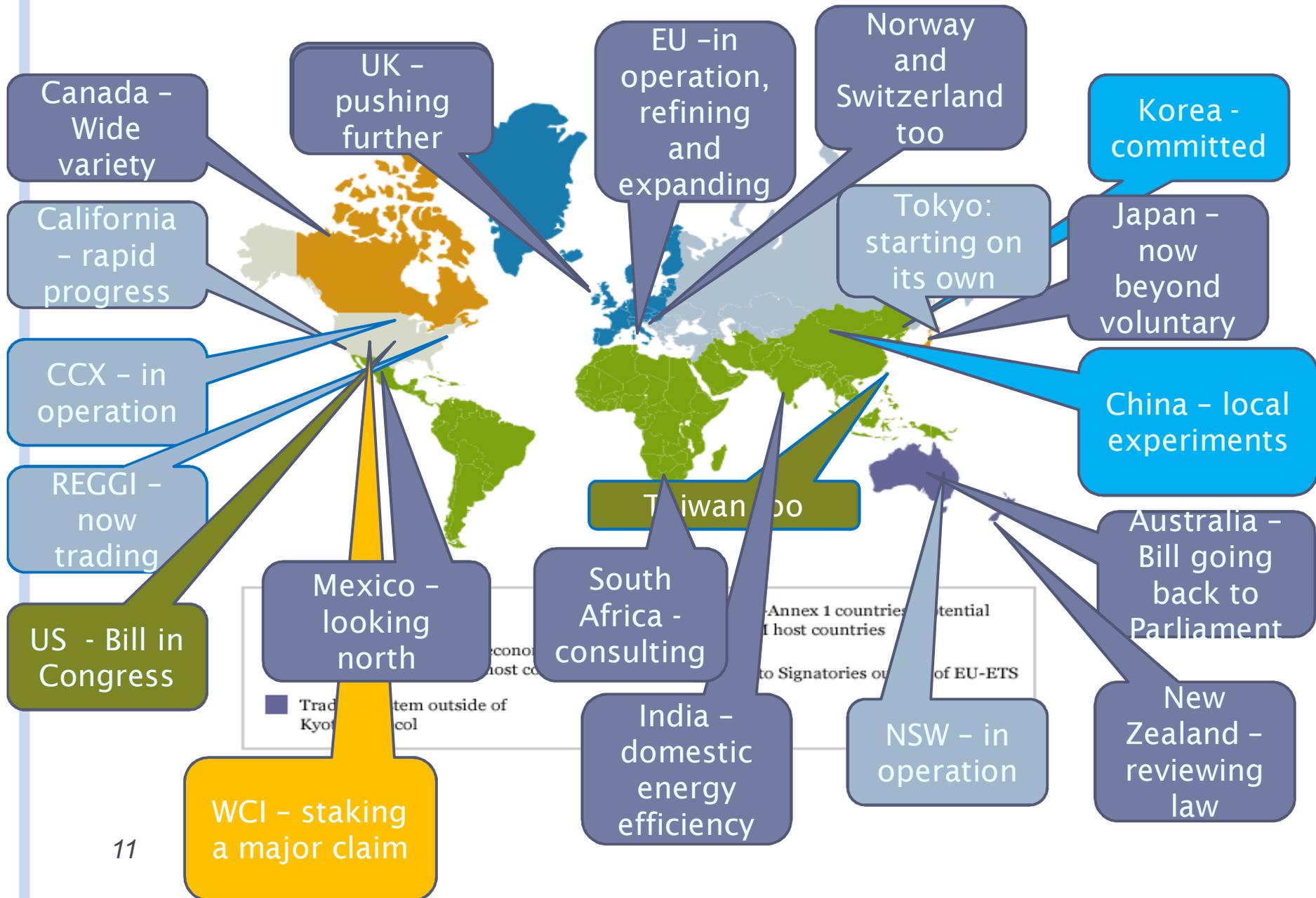
The Current Value of the Global Carbon Market

- ▶ Current policy framework has two main pillars: **Kyoto** and the **EU-ETS**.
 - ▶ Total size of the Global Carbon Market in 2008: **\$126bn**.
 - ▶ Of this, the ETS accounted for **\$92bn**, and Kyoto mechanisms **\$34bn**.



Source: World Bank, Unep Risoe, Deutsche Bank

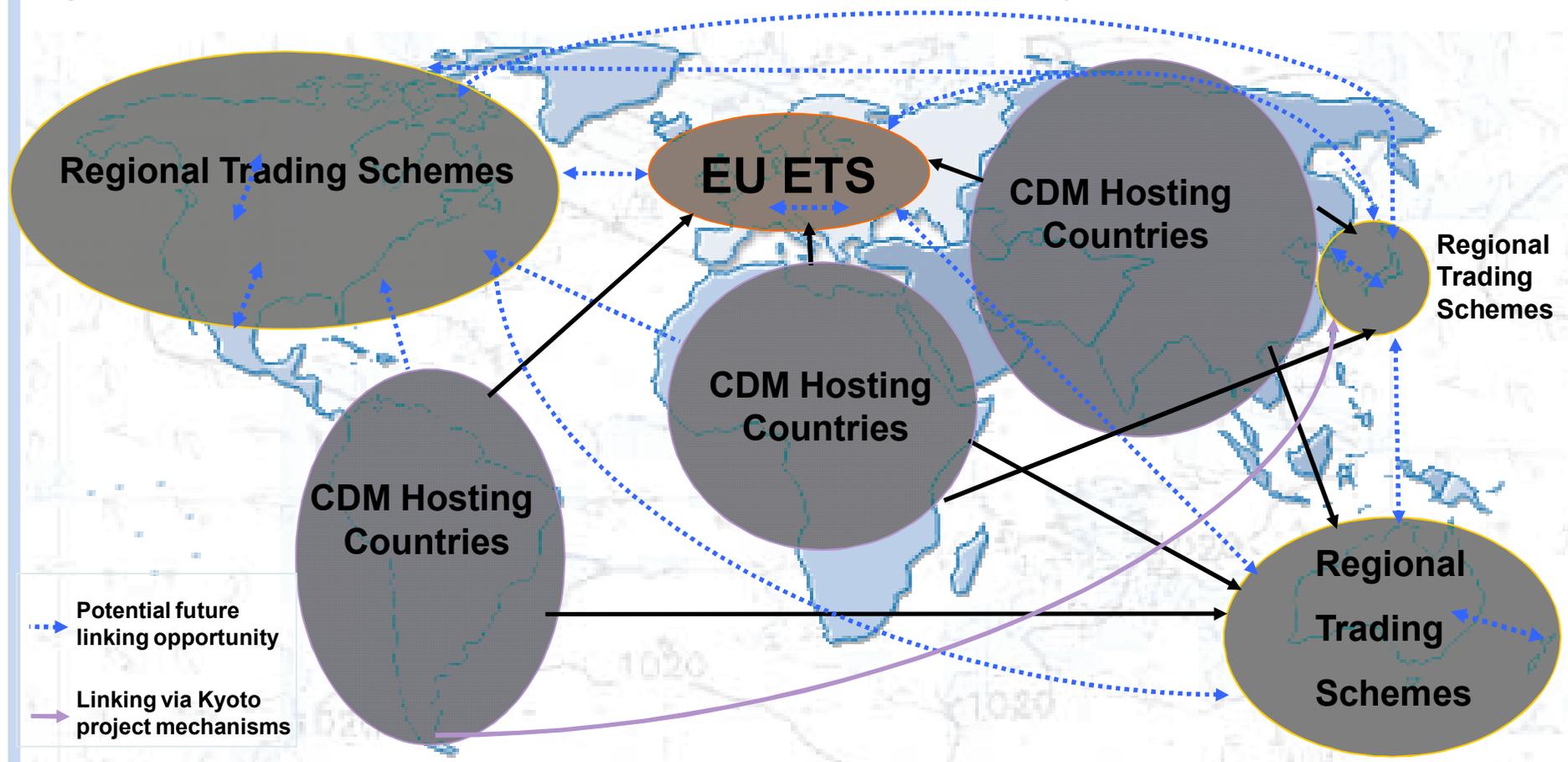
Spreading across the World – Kyoto or not



How the Global Carbon Market Might Look in Future

Potential total size of the Global Carbon Market ■ by 2010E **\$175bn**
 ■ by 2020E **\$1,300bn**

Regional Markets in North America and Australasia will likely bolster demand for CERs





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EU ETS update

EU-ETS Phases 2 and 3 – Main Elements

- ▶ Coverage: 45% of total
- ▶ Ambition: -20-30% below 1990 by 2020
- ▶ Allocation/cap-setting: 100% auctioning by 2027, derogations to preserve competitiveness
- ▶ Offsets: CDM and JI use less than 50%
- ▶ Governance and price limits: possible national action against price spikes
- ▶ Sanctions: €100t plus restitution
- ▶ Status: in operation since 2005, revised architecture agreed 2008, regulations (eg auction methodology) consulting 2009
- ▶ Pre-existing schemes: UK, Danish and Norwegian schemes absorbed

Lessons learned

- ▶ Emissions trading does what it says on the packet
- ▶ Set up the parameters right and a substantial market will appear
- ▶ Significant emissions reductions can be achieved
- ▶ Scarcity needed – banking helps
- ▶ Control of information flow needed
- ▶ Strong central allocation control needed
- ▶ Tax harmonisation needed – or beware fraud
- ▶ Marginal cost pricing not just a theory
- ▶ Not a substitute for investment targets
- ▶ Price will go down when it should
- ▶ Hard to get some sectors into the trading habit
- ▶ Competitiveness a potent political issue even without evidence
- ▶ Coherence with other policies not easy to achieve
- ▶ Transfers of wealth and impacts on development will occur

Fundamental US Differences: What might the EU have to get used to?

- Seriously different level of ambition and timing
- A price cap and collar
- Stringent market oversight restricting participation
- no respect for complementarity
- no participation in Kyoto (enforcement problem still there)
- significantly different offset categories
- border tax adjustments
- possible different approaches to sectoral crediting and trading



Lessons learned and not learned elsewhere in the world:

- Impressive progress towards global uptake of emissions trading schemes
- More overt concern for competitiveness; but EUETS now catching up
- Unwillingness to follow EU into aggressive cuts – scarcity?
- Slow start for auctioning, and use of free allocations to respond to trade-exposure
- Inability to resist price controls, at least to start with
- Combination of tax and trade not fully understood
- EU caution on coverage (transport), gases, offsets not being followed
- Liberalism on market oversight not followed in US

