



Linking and Qualitative Restrictions

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Why link markets?

- First principles: emissions trading delivers economic efficiency by discovering and exploiting differential costs of abatement
- In the atmosphere, a tonne is a tonne – differential prices in carbon markets leads to an inefficiency in addressing a global problem
- Larger markets are more efficient, reducing costs for compliance actors
- Linking with project credits allows participation of non-capped sectors, or economies at the international level



Direct Linking

- Formal linking of markets - GHG emission allowances issued by any program accepted by partners
- Different approaches to direct linking
 - Multilateral – GHG credits are fungible among many GHG mitigation programs
 - Bilateral – GHG credits are fungible between two GHG mitigation programs
 - Unilateral – One GHG mitigation program unilaterally allows GHG credits from another program to count for compliance purposes (e.g. RGGI acceptance of CDM credits, Australian NETS 'gates')



Indirect linking

- GHG mitigation programs can be linked by a mutually-recognized program.
 - 'Common currency' model - EU ETS accepts CDM credits, RGGI will allow CDM credits under some circumstances - EU ETS and RGGI potentially have indirect linkage
 - NETS in Australia will accept CDM credits, creates an indirect link to EU ETS and potentially RGGI
- Financial arbitrage
 - Market makers can provide an indirect linkage between different GHG regulatory programs on a cash basis
 - Transactions costs high, efficiency will require large volumes, just as with international currency exchanges

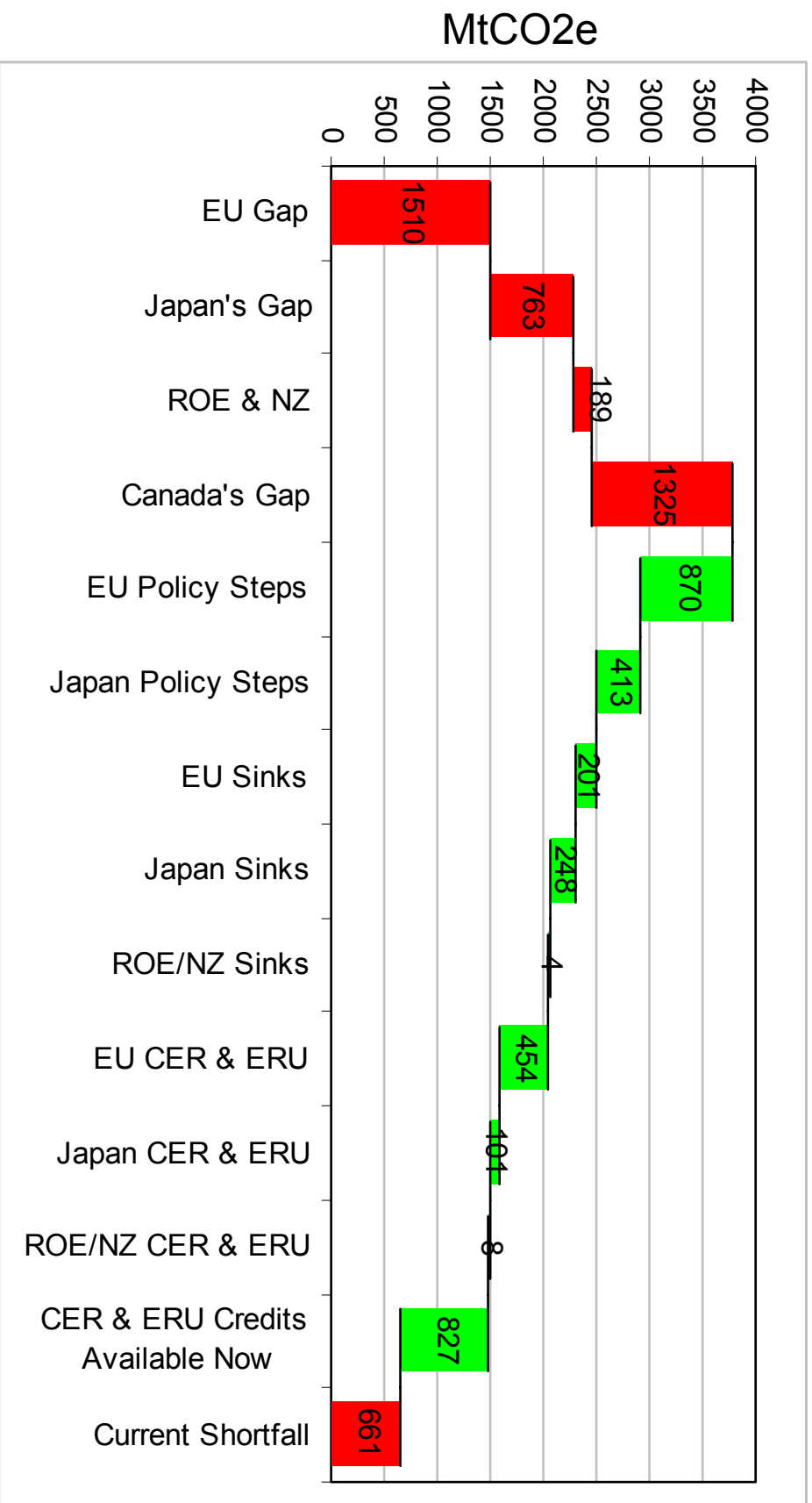


GHG Markets – Make or Buy Option

We need large changes and reductions



Global supply/demand balance scenario





Linking EU ETS to CDM and JI – Opportunities and Pitfalls

- CDM has shown tremendous growth over the last few years
 - CER transactions grew from 107 to 450 Mt CO₂e between 2004 and 2006 – an increase of over 420%
 - With this came carbon finance flows - technology transfer to developing countries
- For 2008 –2012 period, the demand/supply balance is roughly in equilibrium
 - The market has responded to the current demand driven by ambitions from the Kyoto Protocol
 - Demand for carbon project offsets will greatly increase in order to reach targets
 - New Cdn, US, VC, aviation demand
 - More limited JI type credits ?
 - HFC/N₂O projects are done
 - Only so much efficiency from current regulator



US not buying into CDM – new offset standard

Right

- resistance to shipping capital offshore to deal with emissions that should be other countries responsibility
- distrust of United Nations
- concerns about environmental integrity of emissions trading in general

Left

- reductions should happen 'at home' (RGGI, California, Federal, all have this)
- concerns about environmental integrity
- HFC perverse incentives
- will not stimulate clean energy investment
- will not stimulate technological innovation



Imperative to differentiate between EC and UNFCCC/COP/CDM EB jurisdiction

- What the EU/EC can implement directly
- What I can develop positions for and COP/MOP



UNFCCC & EU

UNFCCC

- Move from project-by-project approach
- CDM project by project ? New mechanisms ?
- Serious use of benchmarking
- Programmatic cannot be a lost opportunity
- Look at additionality through benchmarking – this system has limited logic
- Stay away from positive lists
- Move CDM/JI to UNFCCC

EU

- Linking directive a critical element
- What kind of mechanisms does the EU want – hear stakeholders before COP
- LULUCF
- CCS in CDM
- Keep rules as they are – new rules for new periods post 2012
- Stay away from positive lists
- Define own offset mechanisms for certain types???
- Make CDM EB more efficient



Quantitative limits – Supplimentarity

- IETA agrees that actions to tackle climate change should begin domestically as defined under KP
- What will be the post 2012 arrangements
- Offset mechanisms are temporary elements- the target is global ETs
- Although, such policies do weaken efforts of linking different ETs, and restrict lower cost abatement activities that may occur outside of a particular ETs's jurisdiction
 - Capital investments under any future scenario will likely require far greater investment than what has been seen thus far
 - Supplimentarity levels found in NAP IIs currently vary from 0% to around 22%, at installation-level
 - Limits per MS is different at installation level
- Ambition of targets is and must be related to available mechanisms
- The LT use of CERs will be an economic decision by business.



Qualitative limits

- This is the UNFC Climate Change
- Other incentives can be made available for specific technologies and energy security
- Stay away from choosing technologies
- Use all offsets as long as the scientific debate allows
- Do not change the rules for political expediency
- Do not distort energy markets (further)



Recommendations on Quantitative and Qualitative

- Complementarity rules should be set at EU-level, with the intent and objective to lead to an overall abatement cost not prohibitive to the domestic industry
- Expand project categories currently excluded by the CDM - LULUCF and CCS should become part of CDM post-2012
- Explore and encourage the CDM & JI to adopt a more diverse approaches to demonstrating environmental additionality
- Further enhance the harmonisation of project approval among all the different MSs for both the CDM & JI
- Ensure ITL/CITL can recognize credits per MS conditions ?



**Consider a EU/EC consultation prior
to COP/MOP**



SUSTAINABLE MARKET SOLUTIONS FOR GLOBAL ENVIRONMENTAL PROBLEMS

For more information

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CarbonForum Asia
November 6-7, 2007
Singapore



CarbonForum US
February 26-27, 2008
San Francisco



CarbonExpo 2008
May 7 - 9
Cologne