

Carbon Pricing mechanisms

International Workshop on Carbon Markets

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24 September 2015



Climate Challenges, Market Solutions

Agenda

1. Introduction to IETA
2. The case for carbon markets
3. Carbon pricing around the world
4. Markets and linking in the 2015 Agreement



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What is IETA?



International cross-sectoral business association ...

Member companies from oil, electricity, banking, industry, traders, brokers, law, consulting, project developers, exchanges, verifiers, etc.

... providing a global business voice on carbon pricing & market mechanisms

Principles:

- GHG trading systems = most efficient means of achieving environmental objectives
- LT policy certainty is necessary to achieve cost-effective reductions
- Use of offsets/linkages to a global carbon market are effective ways to contain costs



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Do emissions trading systems work?

Lessons learnt from the EU ETS



Looking back at the EU ETS

It has achieved emission reductions at low cost

- given its flexibility & links to the Kyoto mechanisms
- enabled decoupling of economic growth & emission reductions
- raised awareness in corporate boardrooms of the cost of carbon emissions & value of low-carbon investments

4 principles for a well-functioning ETS:

- Scarcity of emission allowances
- LT clarity & predictability
- Adequate compliance periods
- Cost-containment provisions



Adapting to emerging challenges

Phase 3: 2013-2020: significant changes were introduced

- Auctioning: main tool for distributing allowances
- EU-wide benchmarks for free allowances
- EU oversight on the amount of free allowances distributed by MS
- Creation of an innovation fund to finance low-carbon technologies

Despite these changes, a specific challenge emerged: surplus of EUAs

- **ST measure:** Backloading of allowances started early 2014 (900 million allowances will be auctioned later)
- **LT solution:** Market Stability Reserve (MSR) changes the design of the system & introduces flexibility in supply of allowances



The case for carbon markets

- Cost-effectiveness & flexibility
- Business engagement in reducing emissions
- Instrument to raise ambition



Should emissions trading be the preferred option in all circumstances?

ETS is an *instrument* to deliver a goal

... Role of emissions trading depends on what objectives have been set

Standards/command-and-control can play a role to achieve a predefined emission reduction goal

... But lack flexibility & are subject to political choices

Carbon taxes can play a role to put a price on carbon emissions

... But taxes do not guarantee achieving a level of mitigation

If a mix of options is foreseen: careful design considerations to avoid policies competing & undermining each others' goals



1. Introduction to IETA

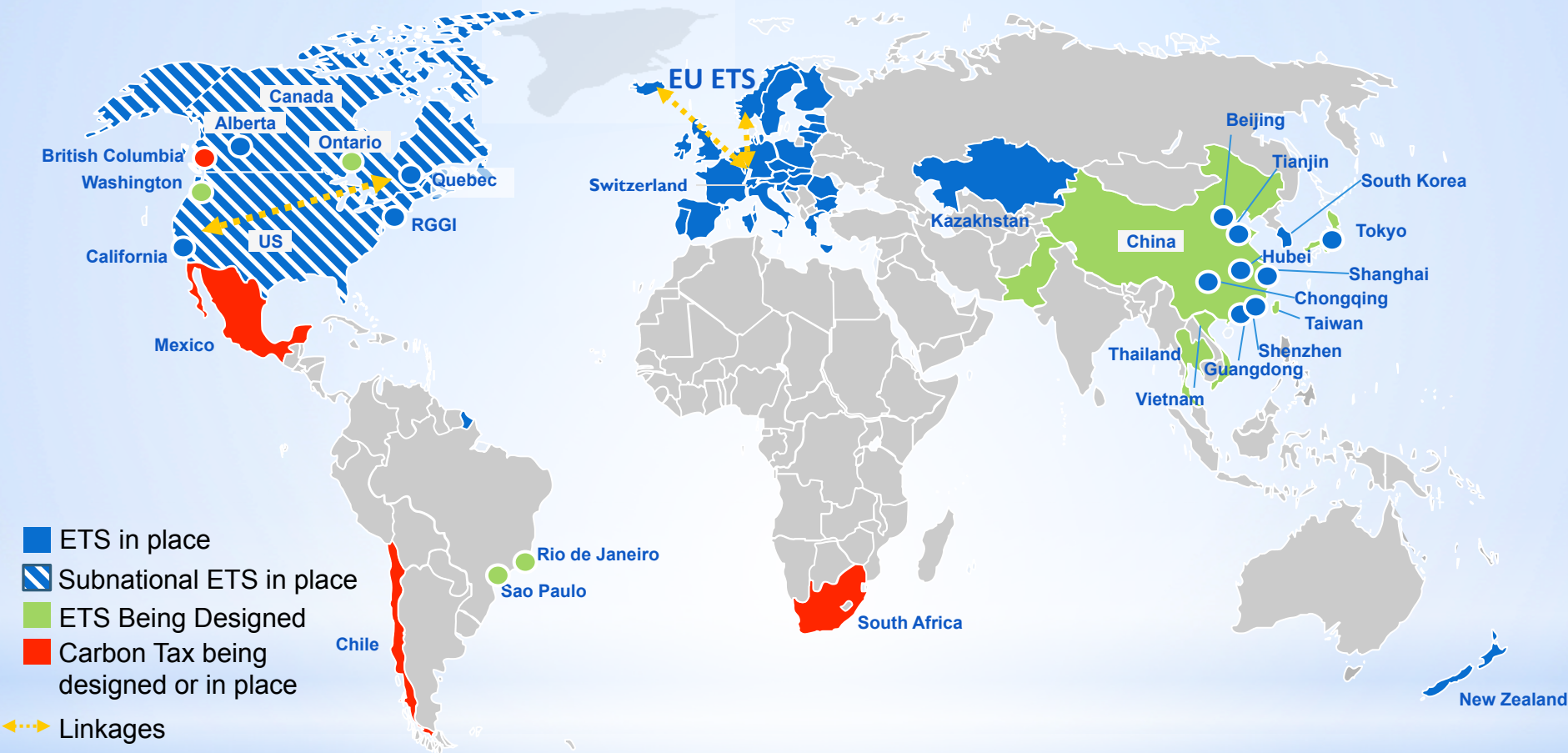
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Global carbon pricing in 2015



INDCs & carbon markets (22 Sept)



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IETA's straw proposal for Paris



- Streamlined with government proposed text (July 2015);
- Consultations with +20 governments (ongoing)
- **Infrastructure** for Parties to form unified compliance pools
- **Transfer function** enabling trade of units between countries
- **Integrates best elements** of CDM/JI programmes into a new crediting mechanism

Linkage of carbon pricing policies will reduce LT abatement costs and help build support for an international climate agreement



IETA's proposed key clause on markets in the Climate Agreement

Transfers of mitigation units between Parties, either directly or through public/and or private entities, can be used to meet and enhance their contributions under the new agreement.

Parties shall ensure that such cooperative arrangements deliver real, permanent, additional and verified internationally transferable mitigation outcomes in a way that preserves environmental integrity, avoids double counting of effort and achieves a net decrease and/or avoidance of emissions.



Thank you

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Country Positions on Markets in the 2015 Climate Agreement

Supporters	'On the fence'	Against
<ul style="list-style-type: none">• EU• Mexico• Brazil• Canada• Japan• Australia• New Zealand• South Korea• South Africa• Chile	<ul style="list-style-type: none">• USA• China• India• Russia• Kazakhstan• Saudi Arabia	<ul style="list-style-type: none">• Argentina• Bolivia• Venezuela