

RIETI “Brown Bag Lunch” Seminar

**Emissions Trading Developments across  
the world - lessons for Japan?**

Henry Derwent – President/CEO IETA

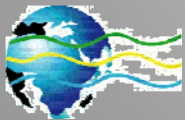
22 May 2008



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# Who are IETA ?

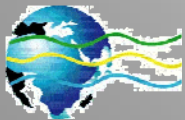
- Only cross–sectoral private sector international organization promoting emissions trading to secure environmental goals
- Founded in 1999
- Membership: 181 companies
  - 49%: emitters
  - 51% project developers, intermediaries, financial institutions, brokers, verifiers, legal firms
  - 60% EU, 30% US/Canada, 10% Asia
- Swiss non profit
- Offices: Geneva, Brussels, Washington, Toronto



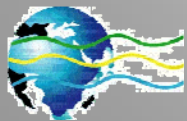
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# Three Key Current Areas for IETA:

- 1 EU-ETS Third Phase Design
- 2 Emerging US National Schemes
- 3 Sentiment of the Carbon Market



# EU - ETS



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# Key Elements of the Commission Package

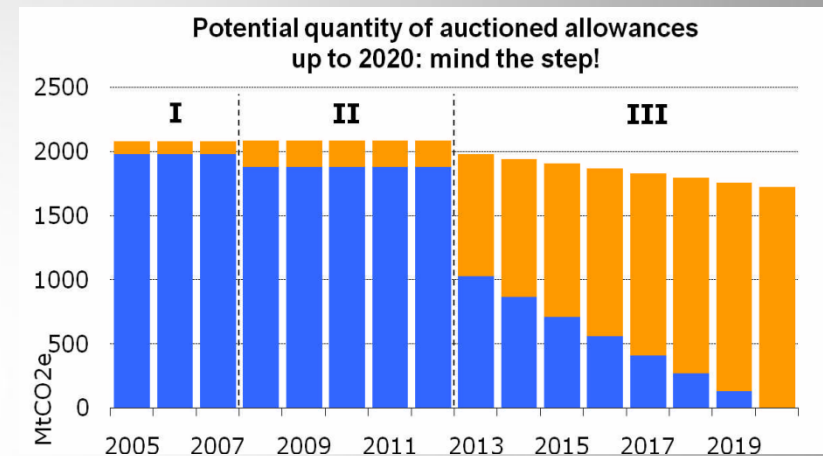
- a significant contribution to a -20% or -30% reduction by 2020
- extension of coverage to new sectors and gases, with opt-out for smaller installations
- a single European cap with a linear decrease to 2020 and beyond
- Harmonised allocation with a major and increasing role for auctioning, taking into account cost pass-through and “carbon leakage” (but also to redistribute resource between MS)
- Auctioning income substantial – 20% should go to climate change
- Strongly based on economic analysis: GDP impact -0.35% in 2020
- Slightly easier path to linking
- Harmonisation of MRV
- Integration with renewables, CCS and “burden-sharing”



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# Where are the Political Problem Areas?

- Level of ambition vs competitiveness
- Auctioning vs free or benchmarked allocation
- Application of auction revenues
- Forestry – “something must be done”
- CDM – possibly?
- Speculators!
- Special weighting for CCS or other favoured technologies
- Transport coverage
- Carbon leakage, and the international negotiations
- Border adjustments
- Special member-state circumstances (eg dependence on Russian gas) **and ...getting it all done by December**



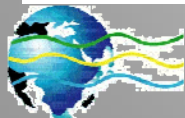
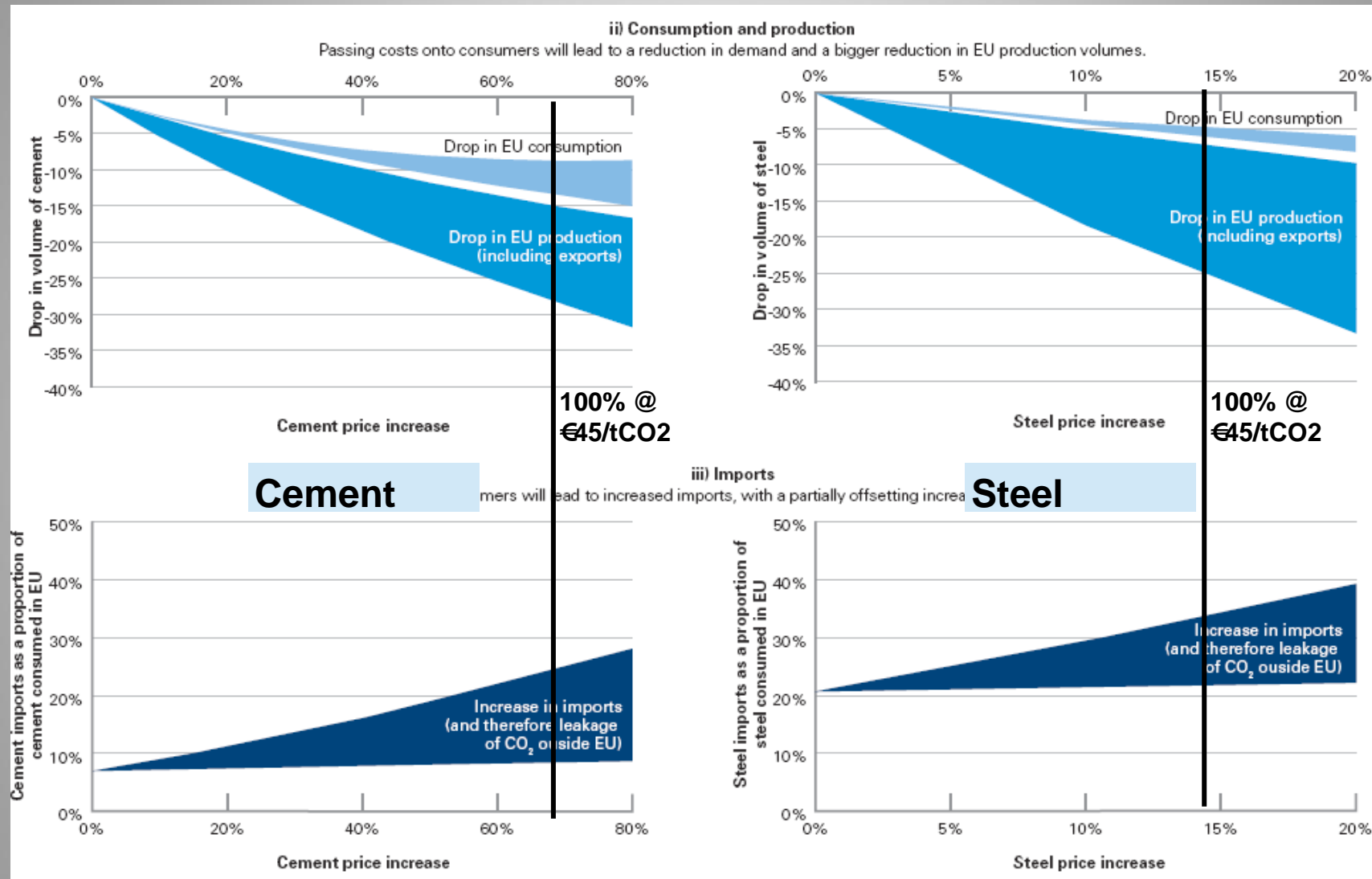
Source: Mission Climat/Caisse des Depots



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# The Competitiveness Puzzle – not many sectors seriously affected but the effect is real

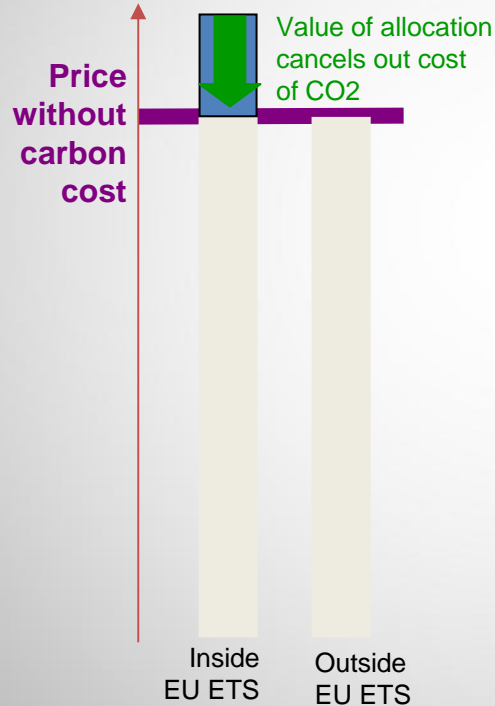


# So what can be done?

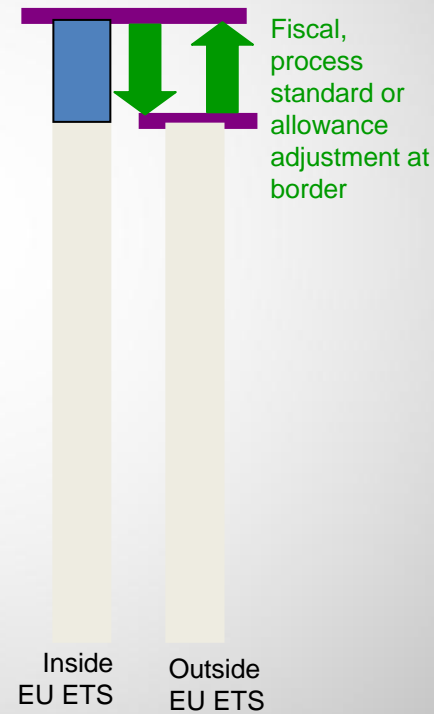
**No mechanism  
(fixed free  
allocation)**



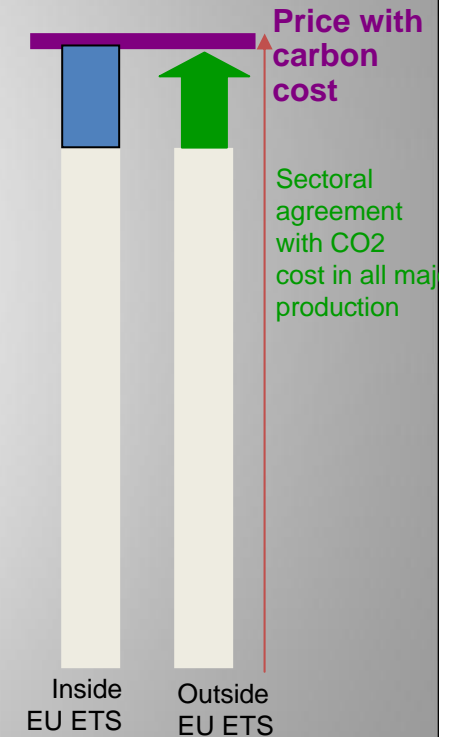
*Levelise at  
non-carbon costs*  
**Conditional  
allocation/ revenue  
recycling**



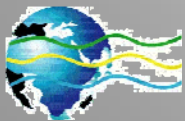
*Support consistent  
differential*  
**Border  
adjustments**



*Globalise  
carbon costs*  
**Full-cost sectoral  
Agreements**



Source: Michael Grubb/arbon Strategies

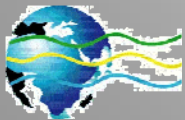


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# IETA's verdict: Necessary Operational improvements

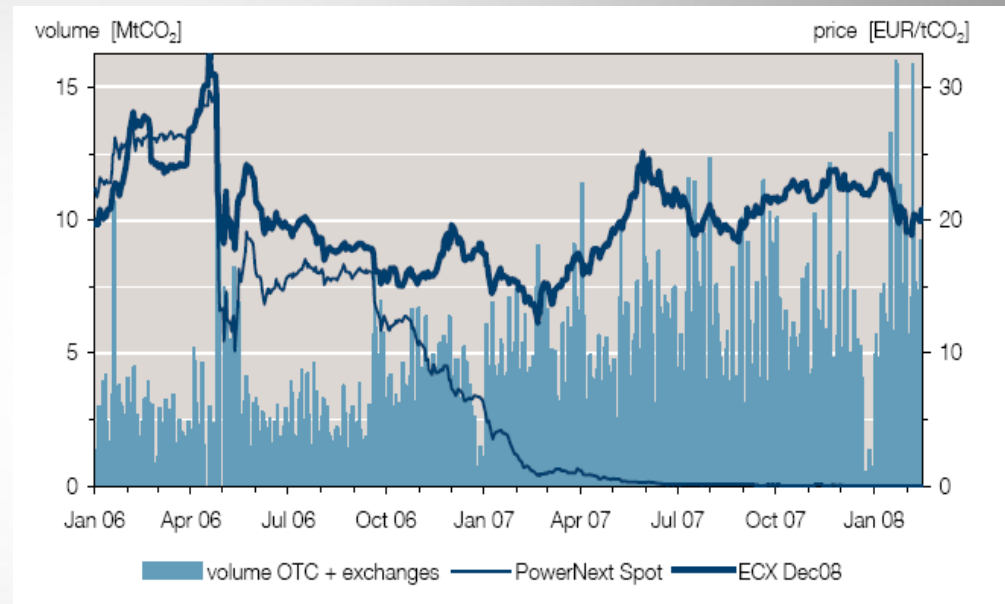
Some devil in the post-legislation detail but , the principles are very good:

- A longer period for price to operate and signal
- A clear direction of travel
- Principle of auctioning central
- Harmonised cap and allocation methodologies
- Evidence of determination to avoid inadequate demand
- Harmonised definitions
- Some expansion – still cautious
- Linkage into a global market provided for



# Credibility and stability

- Phase 1 price crash did damage, even if only in international politics
- Auctioning, if well-managed, can help keep the market stable
- But some of the “over-allocation” argument is over-done: new research shows 2005 and 2006 emissions lower than baseline projections by 50-100mt – 5%
- Phase 2 was 14% lower – price is sustained
- Full credibility requires sustained price signals: but reductions from fuel switching and projects are not to be despised

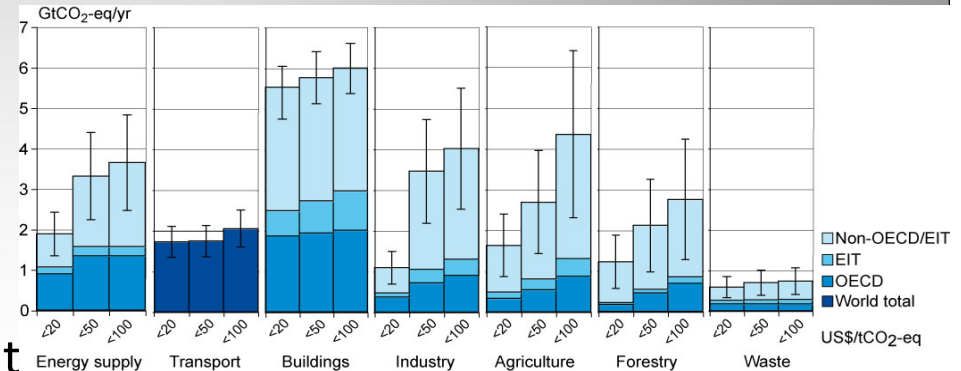


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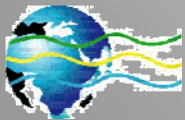
# Some Confusions Remain

- Non-transparency of modelling price assumptions

- Availability of international project mechanisms could be severely reduced: no new projects?

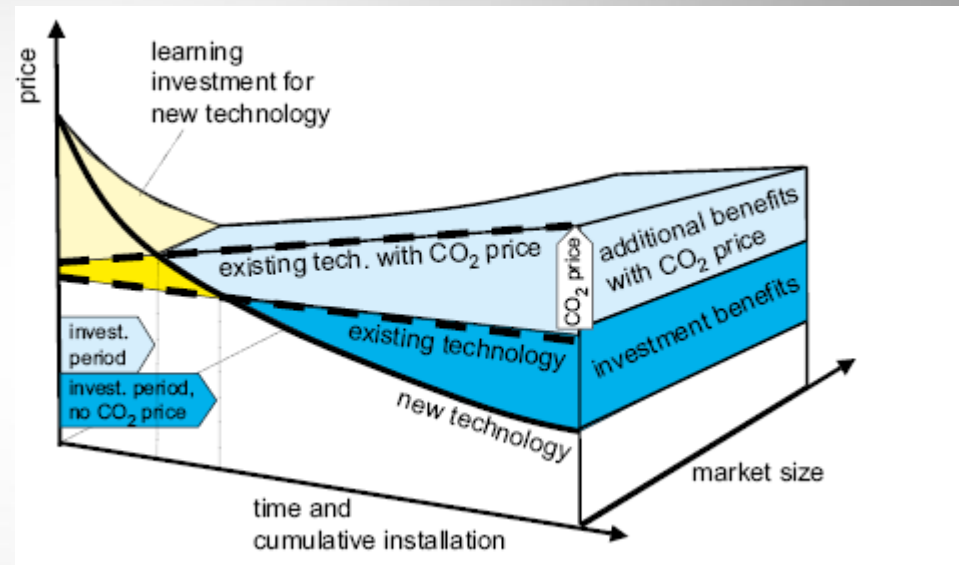


- Trigger of “an international agreement
- External price and cost controls could get in the way
- Competitiveness dragon not slain
- Auctioning methodologies not clear and timescales are tight
- New Entrant Reserve large but limited
- Application of revenues
- Fairness between countries and EU-ETS/non-EU-ETS sectors



# There is an unresolved confusion with renewables support policy

- Uneasy relationship between price, subsidy and regulation
- Renewables targets look highly uncertain without new mandatory policies (CCS too?)
- If sufficient emissions reductions actions are mandated, no role for the market to help choose
- Give the market a chance first



Source: IPCC, from Neuhoff



# UK – Expansion and Independent Oversight

## Carbon Reduction Commitment

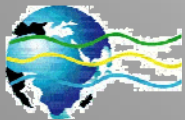
- mandatory emissions trading for c3000 non-energy intensive but large commercial and public sector organisations. (10% of UK emissions)
- Starts in January 2010 with a three year introductory phase featuring simple fixed price sales of allowances. From 2013 a cap on the number of allowances, and all will be auctioned each year

## Committee on Climate Change

- Independent Committee with unprecedented economic power
- Reports to Government and parliament on whether 60% by 2050 is enough, on 5-year budgets rolling out to 2050 budget
- Analyses international constraints, marginal abatement cost curves, use of bought-in credits, and other policy issues



# US Developments



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# The Presidential Hopefuls



- market-based cap-and-trade to reduce 80% by 2050, back to 1990 levels by 2020, with immediate annual reduction targets
- 100% auction
- some revenue used for clean energy development, energy efficiency and transition costs
- 25% renewables by 2025: support to clean coal, CCS, reforestation, new technologies
- Global Energy Forum of the largest Greenhouse gas emitters



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# The Presidential hopefuls

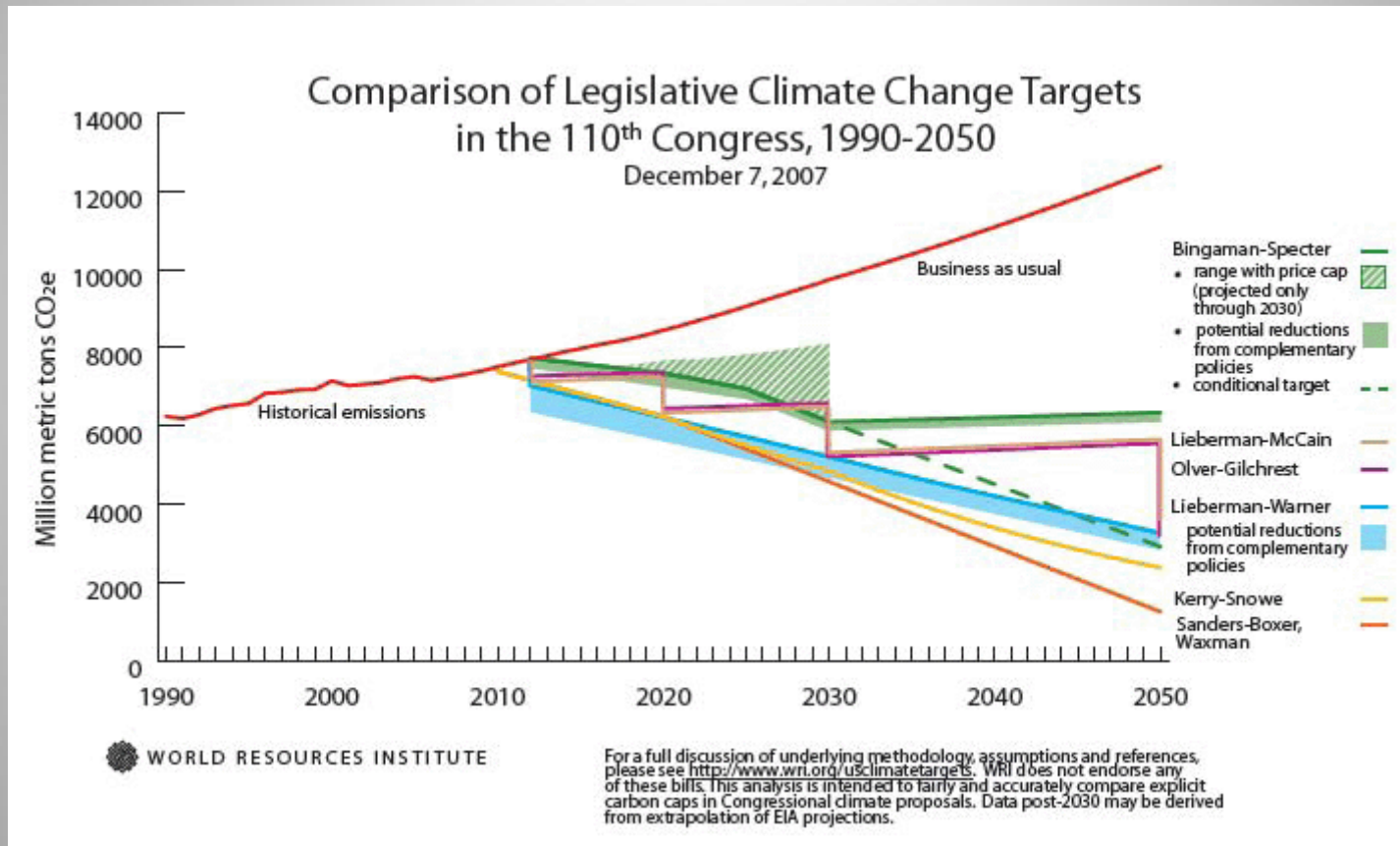


- cap and trade scheme covering 90% of the economy
- targets for 2012, 2020 (return to 1990), 2030, 2050 (60% below 1990)
- permits eventually (2050?) auctioned with some proceeds going to research (including CCS and nuclear) and deployment support
- early allocation of permits to help transition and endow the Climate Change Credit Corporation, which will reward early action
- a commission to decide the balance of freely allocated and auctioned
- banking and borrowing allowed
- unlimited initial offsets from domestic and international sources
- integrating the US market with others, in pursuit of lower-cost reductions
- a strategic carbon reserve as a source of permits during hard economic times
- lead UN negotiations, and incentivise rapid participation by India/China
- same environmental standards applied to those countries as to US



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# Bills in Congress



# Lieberman-Warner

- emissions reductions of about 2% pa from 2012 – 19% by 2020, 71% by 2050 for covered sectors
- up to 15% domestic offsets, with emphasis on farming and forestry
- up to 5% international project-based credits, another 10% international forest protection credits
- strong market oversight to prevent manipulation
- Carbon Market Efficiency Board reporting to Congress, able to apply cost-relief measures
- Climate Change Technology Board to distribute revenues
- banking and borrowing allowed
- automatic extra supply released (borrowed from future) at predetermined price level
- fixed reward for early action
- much transitional relief
- all major emitters to reduce – otherwise importers  
Must acquire allowances
- states can take measures if not less stringent



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# A Dry Run – and then how long?

- Inauspicious times: when will the L-W Bill now get on the floor? What will it show when it does?
- A Bill to Congress 100 days after Jan 09 swearing in?
- To Congress May 09, marked up Fall 09
- To Committees, who meet in conference Spring 2010 earliest
- Legislation passed 2010; executive action “within 180 days”; could take till 2012 to implement
- Lawsuits aimed at preventing implementation – if granted, add 2 more years
- Use of Clean Air Act, Endangered Species Act, Executive Agreement for international elements – all bear traps



# Some key US IETA concerns

- Fundamental misunderstandings of cap and trade – lack of knowledge about EU-ETS and other precedents
- Growing sympathy for taxation rather than trading
- Problems with price caps and safety-valves
- Fundamental mistrust of international offsets
- Unsophisticated approaches to preconditions for auctioning



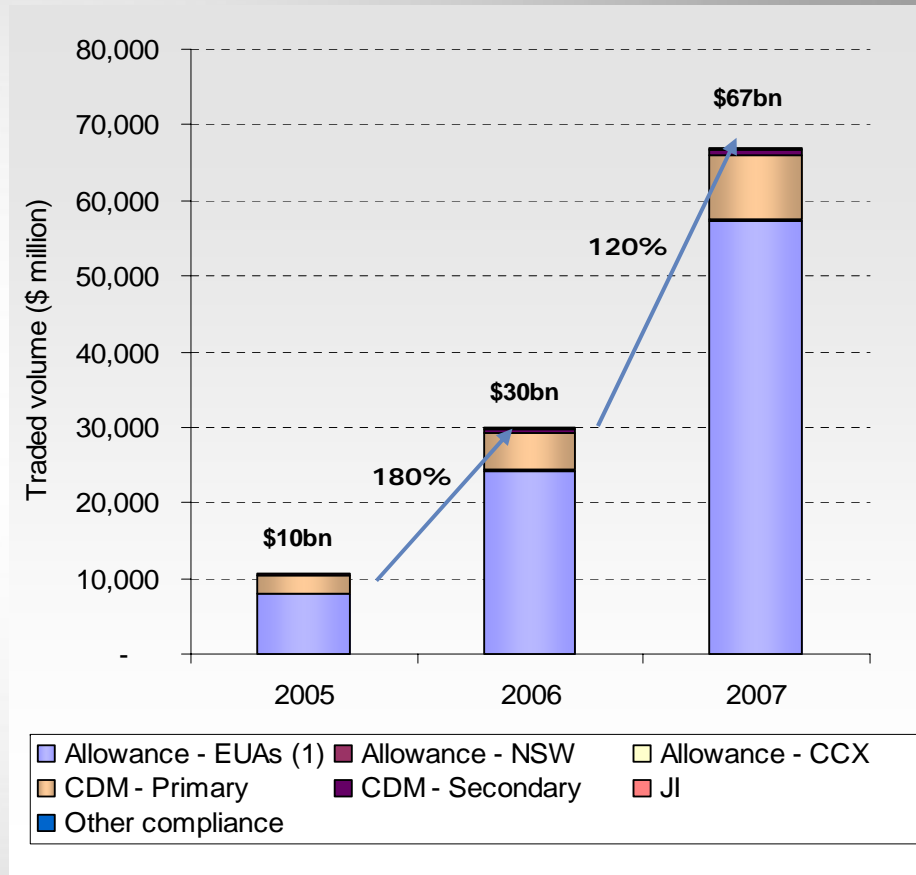
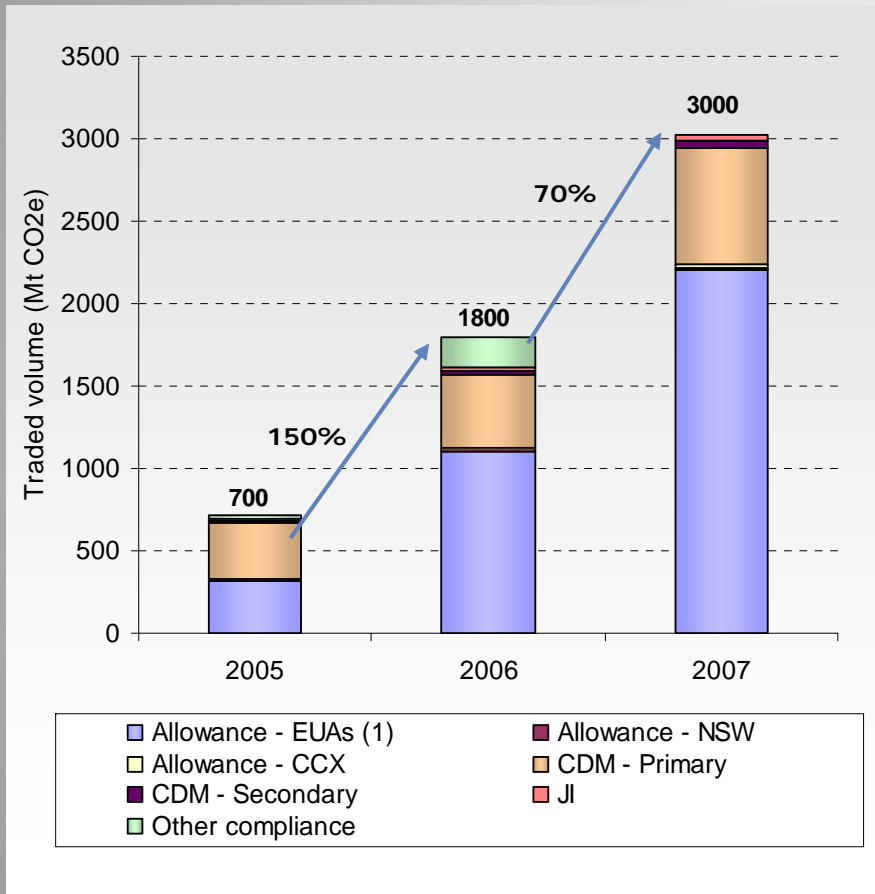
# The State and Sentiment of the Carbon Market



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# Value of world carbon market increased by 120% in 2007

- Mostly driven by increased volume and price of EUAs

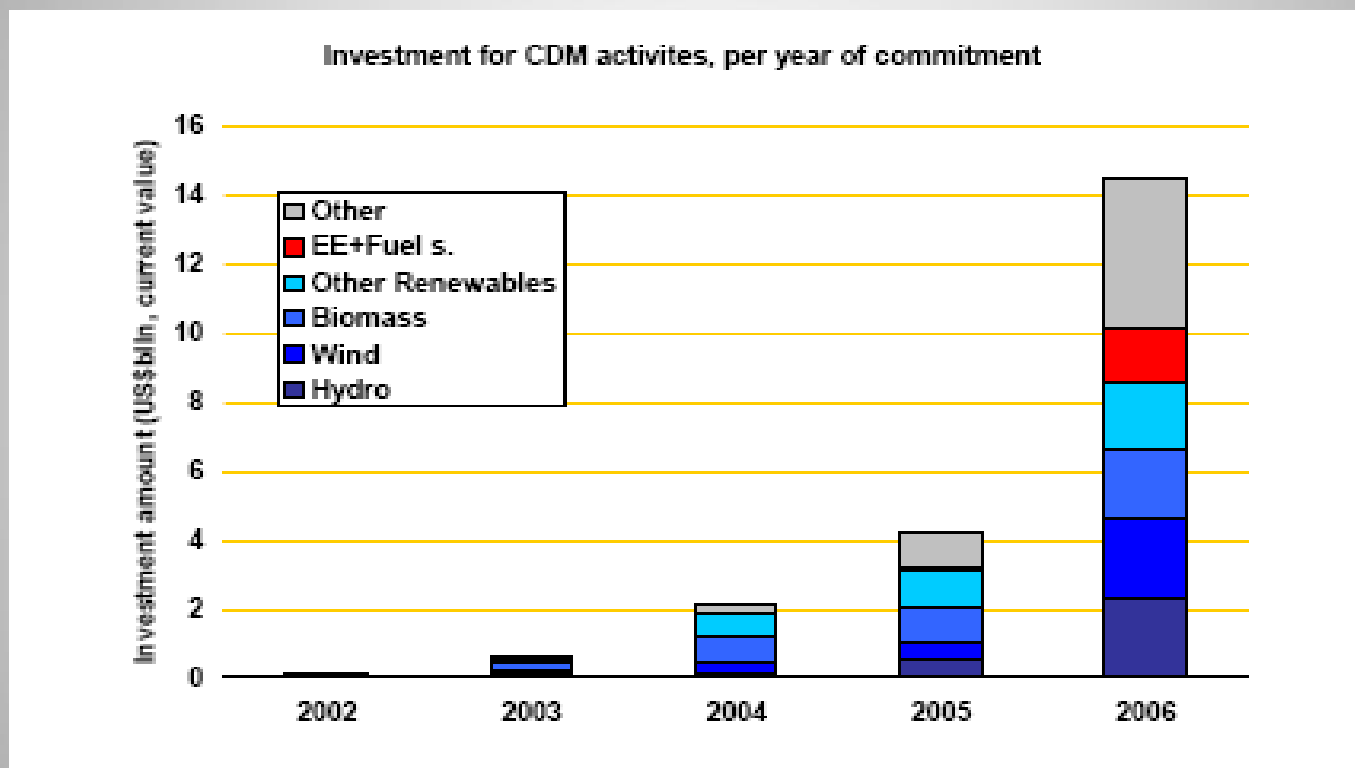


Source: New Carbon Finance estimates



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# How the Carbon Price does affect clean energy investment – CDM analysis



Source: World Bank  
State of Carbon market 2007

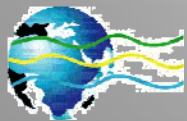
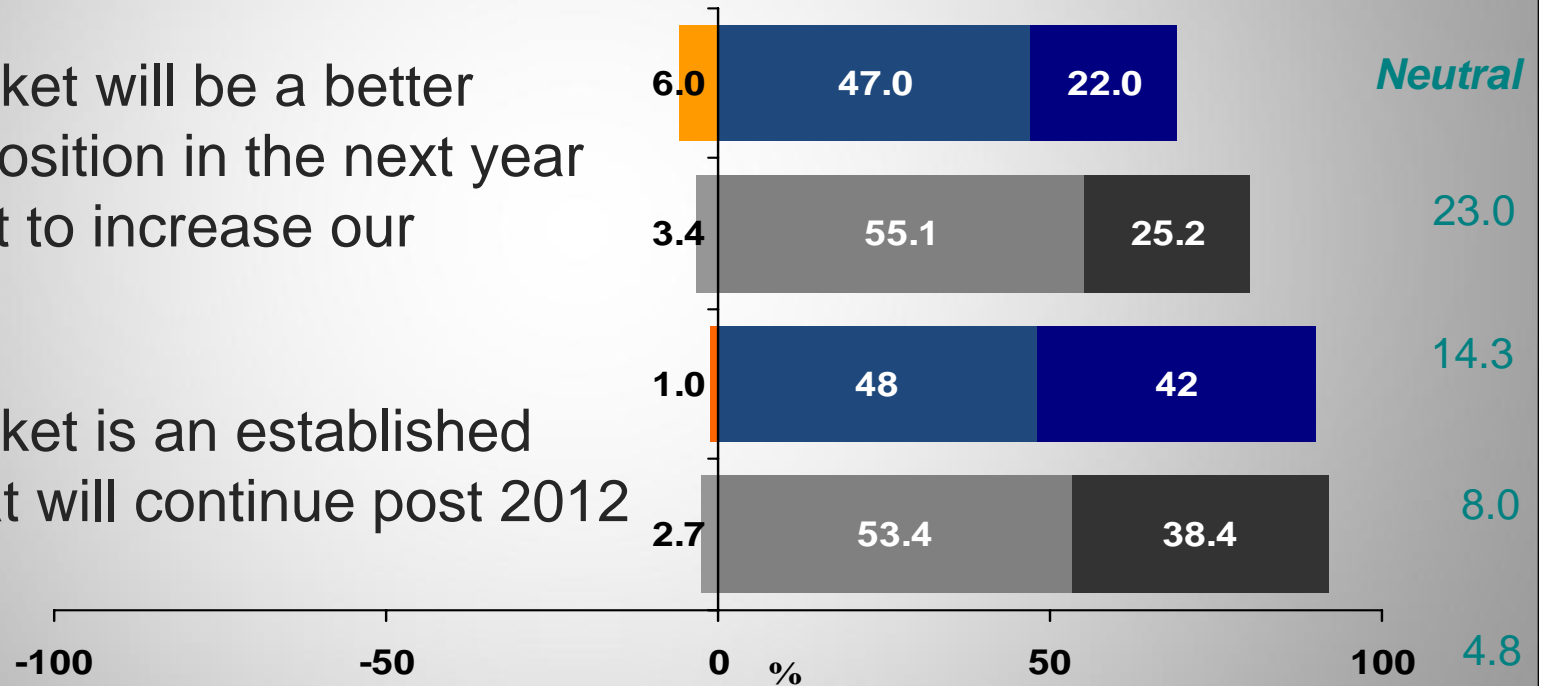


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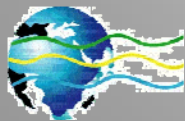
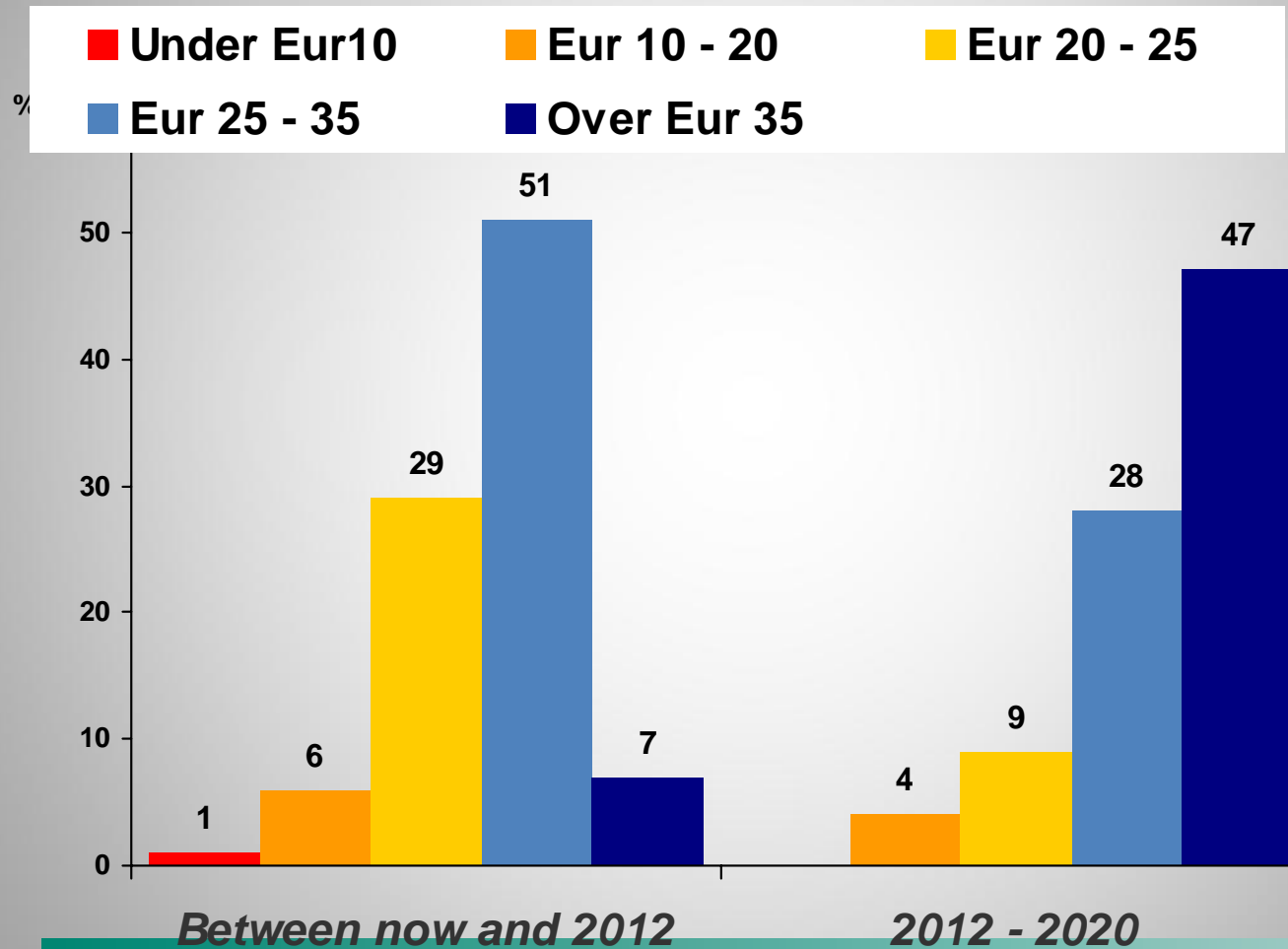
# Fewer respondents intend to increase participation for the next year.

The GHG market will be a better business proposition in the next year and we expect to increase our participation

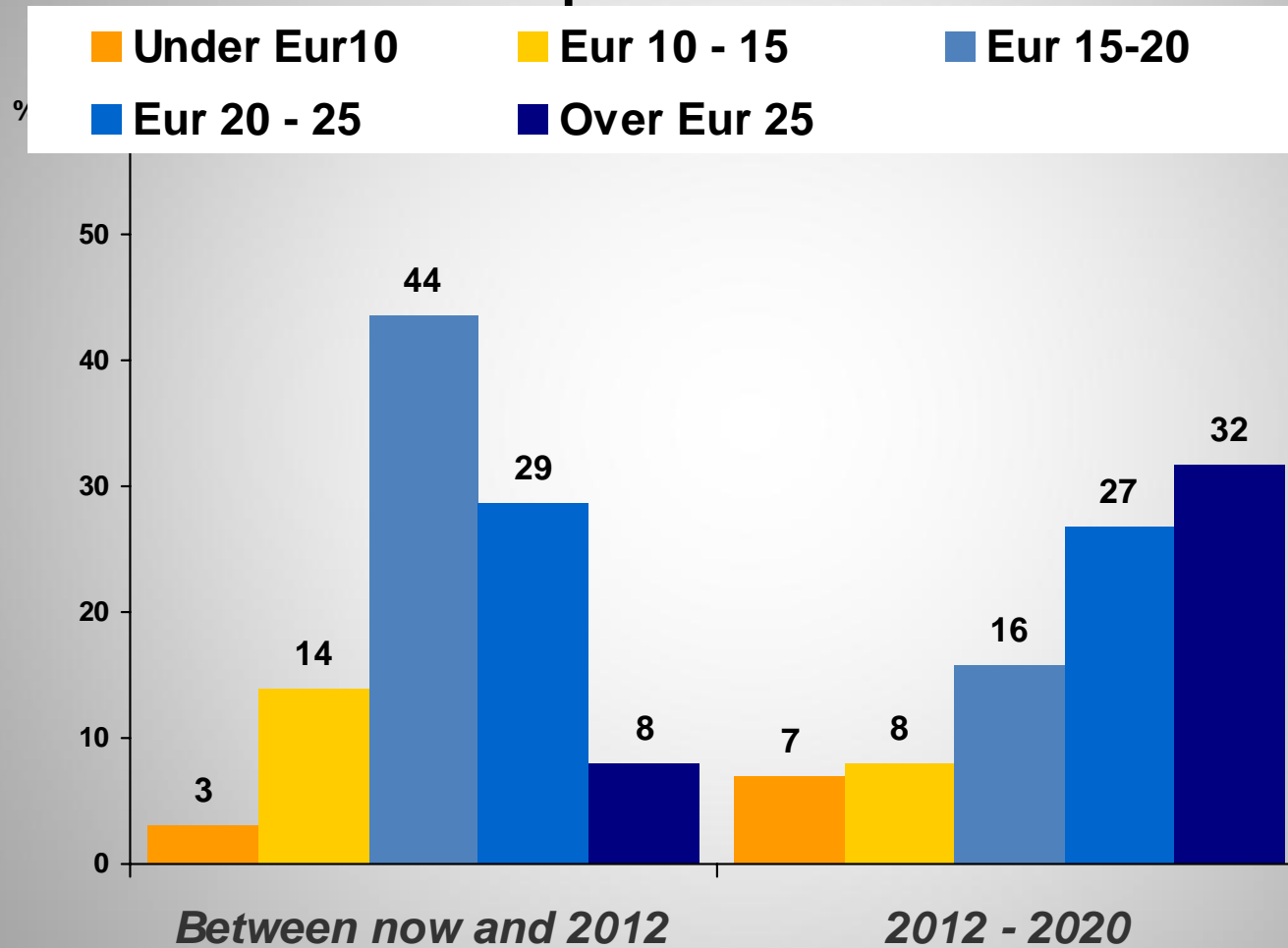
The GHG market is an established instrument that will continue post 2012



# Significantly higher prices beyond 2012



# Prices of CER also expected to increase post 2012



# Issues for the Future



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# Issues for the Future

- Are we kidding ourselves about an international agreement in place for 2013?
- What is the true scope for linking when ambitions for 2020 are still so different?
- Is the EU's negotiating ploy going to knock the bottom out of the project market?

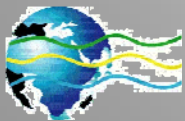


# Issues for Japan

- When is it reasonable to expect Japan's competitors to be adequately covered?
- Is the idea of an international sectoral approach going to produce any dividend?
- Is there any difference between a "hard" voluntary scheme and a cap and trade scheme?
- But is that difference going to prevent linking, and if so does it matter ?



Singapore, 12-13 November 2008



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