



Emissions Trading on the International Scale

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IETA Vision

IETA is dedicated to:

- § objectives of the UN Framework Convention on Climate Change, and ultimately climate protection**
- § establishing effective market-based systems for businesses to trade greenhouse gas emissions that are demonstrably fair, open, efficient, accountable and consistent across national boundaries, and**
- § maintaining societal equity and environmental integrity while establishing these systems.**



Main Activities - Build GHG markets

- § Standardise Components
- § Capacity building
- § Highlight issues
- § Respond to Regulators



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Scope of this IETA presentation:

- § EU emissions trading as international pattern
- § Linking EU ETS to Kyoto project mechanisms
- § Emissions trading a basis for 'beyond Kyoto'



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- § EU emissions trading as international pattern
 - EU sets the pattern of delegating to installations
 - 12,000 to 15,000 installations will be included
 - Ca. 2000 mtpa CO₂ equivalent of GHG emissions
 - EU first mover advantage
 - Linking initiative to help kick-start Kyoto projects
 - Considerable interest from other UNFCCC Parties including ones who have/have not ratified Kyoto
- § ETS has 'mass' to set international standards



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- § EU ETS needs to succeed economically and environmentally to set future policy patterns
 - Progressive change very sensitive to price signal
 - Compliance or traders' market?
 - Compliance and market making are both needed
 - Effective market signals needed to drive change
 - Efficiency improvements will be driven by prices
 - Fundamental change needs forward price curve to give benchmarks to judge future investments



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- § Linking EU ETS to Kyoto project mechanisms
 - Linking initiative to help kick-start Kyoto projects
 - Projects need expertise –technical & commercial
 - EU ETS can add incentive of emissions reduction
- § Linking single reading agreement will offer
 - Incentive of using project credits from 2005
 - Strong signal to Kyoto signatories, incl. Russia
 - Supplemental criteria could be for Member State
 - Need EU/NGOs to learn to trust CDM EB process



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Single reading agreement on linking proposal:

- § IETA supports the proposed linking compromise
- § IETA supports the EU strategy to engage with and support the Kyoto and CDM EB mechanism process
- § We believe EU then needs to trust CDM EB process



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§ Market mechanisms basis for 'beyond Kyoto'

- EU, as others, face a dilemma of environmental progress at politically acceptable economic cost
- Any future regime needs to combine flexibility & economic efficiency with environmental integrity
- Emissions trading market fundamentals deliver compliance flexibly, and economically efficiently
- Political challenge - acceptance of absolute target
- Flexible mechanisms as likely 'survivors' of Kyoto



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§ Market mechanisms basis for 'beyond Kyoto'

- Key test will be linking of dissimilar approaches
- Key common factors to be emissions monitoring, compliance, & single currency CO_{2eq} market price
- Engaging LDC will require transfer of technology
- WSSD shows essential role for company projects
- US, Russia & EU can all effectively veto a regime
- Key issue will be how target & economic growth can be reconciled: cf. Council report Spring 2005



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Conclusions:

- § EU ETS is a major initiative using the market to address a global issue of climate change
- § EU ETS needs to succeed economically and environmentally to set future policy patterns
- § 'Beyond Kyoto', market approaches are likely to become a common basis for global action
- § Linking different approaches will be crucial