

## Trade and Climate Change

# The need for international action on climate change

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**OECD Global forum on Trade**

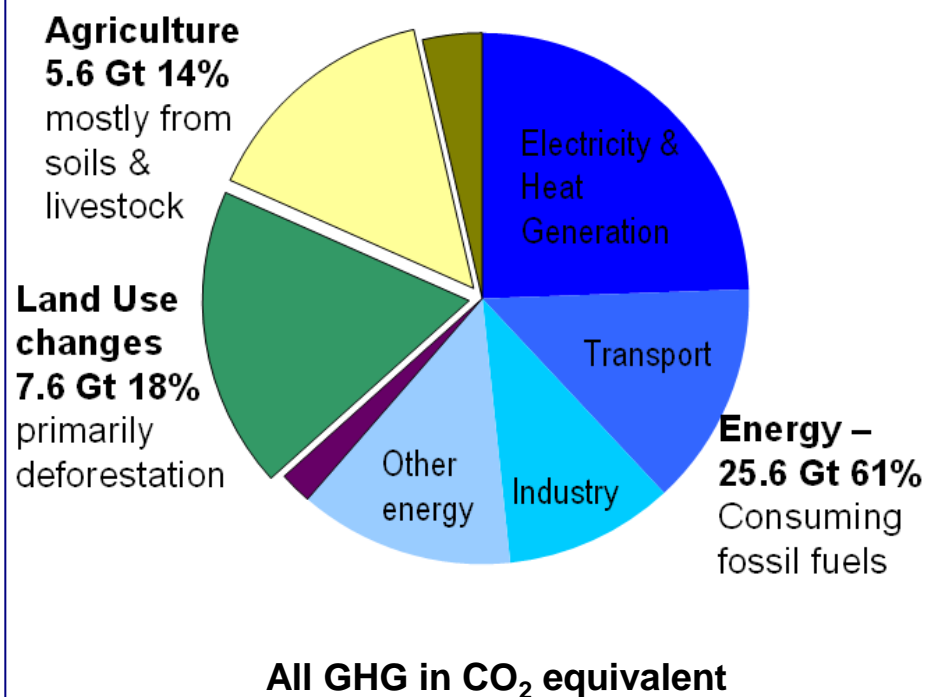
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- **The reasons for an international action**
  - ✓ The challenge of reducing GHG emissions
  - ✓ To combine strong economic incentives with equity rules
  - ✓ The principle of common but differentiated responsibility
- **How to enlarge economic incentives ? Some lessons from the European Union experience**
  - ✓ Carbon emissions now have a price
  - ✓ This price has triggered emissions reductions
  - ✓ A multinational agreement

# The challenge of reducing GHG emissions

- **The accumulation of GHG is destroying a global public good**
- **Reducing GHG emissions:**
  - ✓ Reorganizing the way we produce and use energy
  - ✓ Reorganizing the way we manage agriculture & forestry
- **Why act now ?**
  - ✓ Traditional response from economists : it reduces the cost
  - ✓ A “no-regret” action contributing :
    - to the energy transition
    - to cope with the global alimentary situation

## Global GHG Emissions by sector



Source: IPCC, 2007.

# Combining strong economic incentives with equity rules

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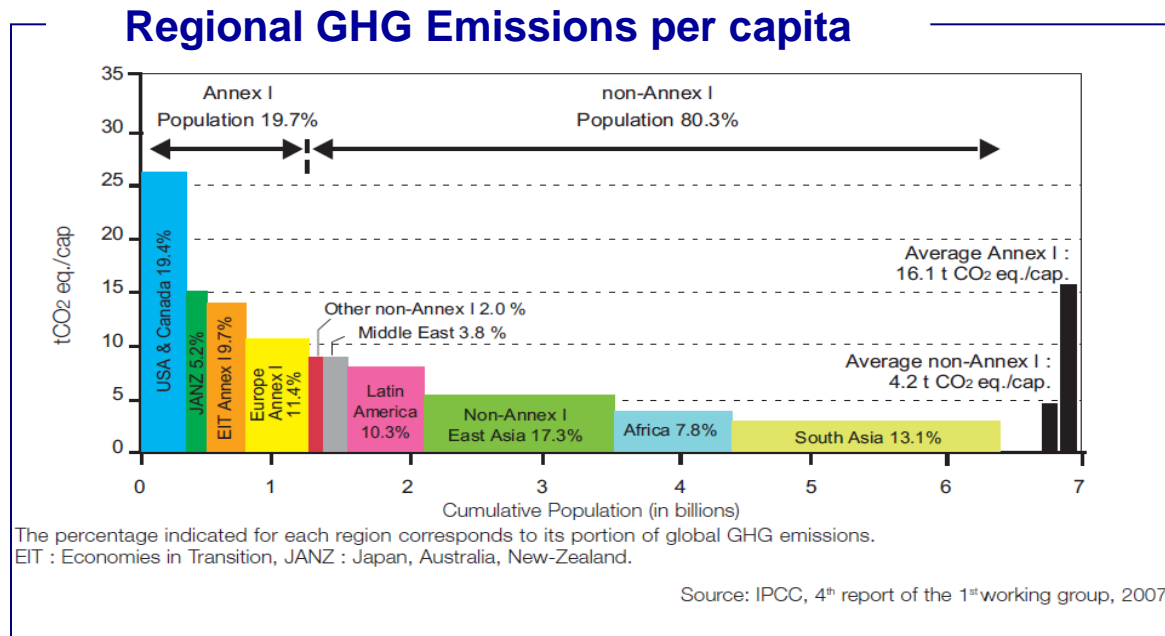
- **Efficiency : economic incentives through carbon pricing**
  - ✓ In economics textbooks : tax versus carbon market debates
  - ✓ In the real world, market mechanisms are implemented :
    - Cap & Trade schemes (European trading scheme)
    - Kyoto project based mechanisms (CDM/JI)
  - ✓ Cap & trade scheme working for energy linked emissions, not for agriculture and forestry
- **Equity is essential for extending economic incentives**
  - ✓ Differentiated responsibilities and vulnerabilities
  - ✓ A condition to extend the capping of emissions to emerging economies

**The principal of Common but Differentiated Responsibility : efficiency + equity**

# The Principle of Common but Differentiated Responsibility

## ■ The distribution of responsibilities and damages:

- ✓ 80% of historical cumulated emissions come from industrialized countries
- ✓ High vulnerability of developing countries to climate change impacts



- **The current interpretation of Equity rules:** Unlimited rights to emit GHG in non-Annex 1 countries
- **Looking for new equity rules:**
  - ✓ North / South resources transfers: adaptation, agriculture development and forest protection, low carbon technology diffusion
  - ✓ Enlarging the restriction of GHG emissions rights to non-Annex I countries

# Carbon now has a price

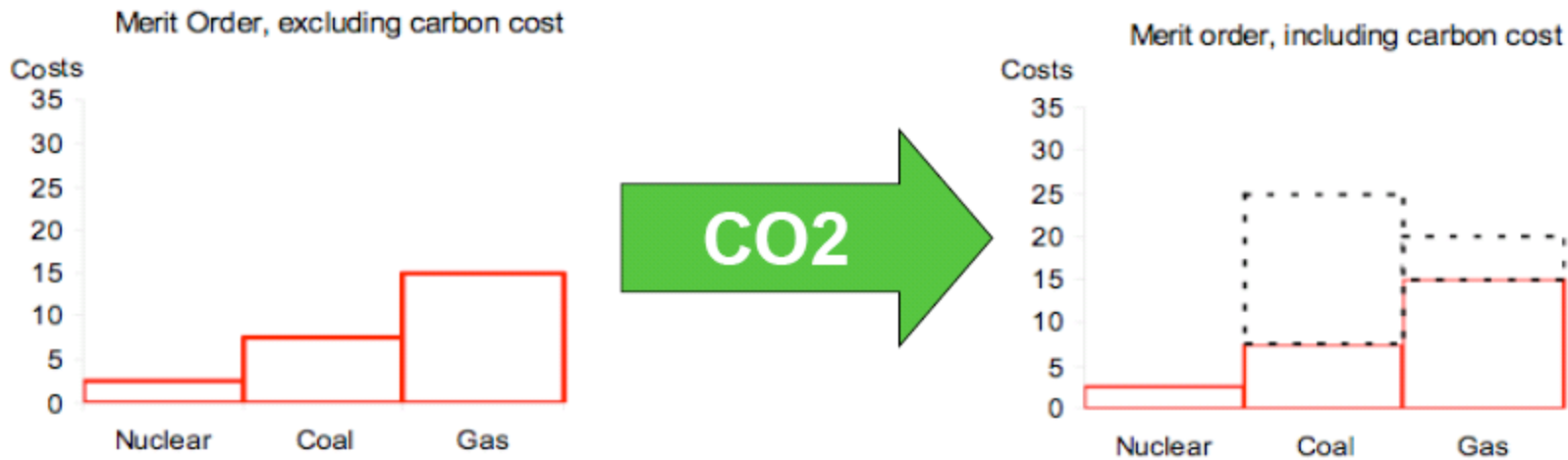
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- **Value traded on the EU-ETS:**
  - ✓ \$ 80 billion in 2008
  - ✓ \$ 8 billion in 2005
- **Carbon price signal is effective (with some volatility), and reflects the present and anticipated scarcity of CO<sub>2</sub> allowances in European industries**
- **European carbon price has become an international reference**
  - ✓ EU-ETS has triggered the development of Kyoto credit market
  - ✓ CER prices linked to EUA prices

**No one believes that we will return to the free emissions of carbon in Europe**

# The EU ETS has led to some emissions abatement

- Preliminary results indicate that the EU ETS did in fact induce emissions abatement during the first period (between 50 Mt and 100 Mt per year)
- Emissions abatement is likely to have mostly taken place in the power sector:
  - ✓ Fuel switching: from brown coal (lignite) to lower-emitting hard coal
  - ✓ Enhanced CO<sub>2</sub> efficiency of coal plants: biomass use, improved energy efficiency



Source: Sijm (2006).

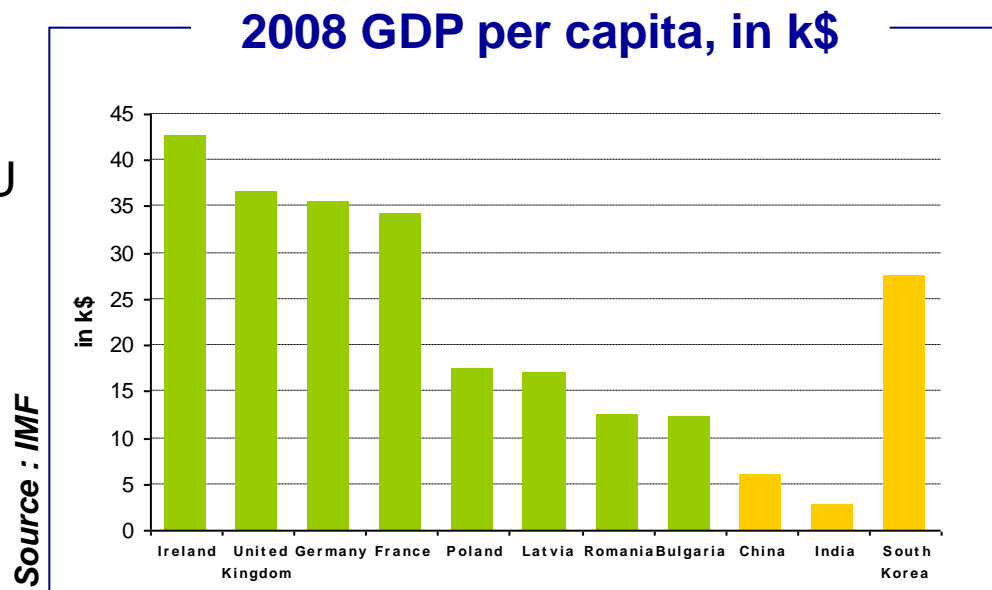
# A multinational trading scheme

## ■ EU-ETS covers the emissions of 27 EU member states :

- ✓ Speaking more than 20 languages
- ✓ With very different historical backgrounds
- ✓ And a great diversity of energy situations

## ■ Diversity of development levels

- ✓ GDP per capita gaps within EU wider than between China or India and some member States



**Cap & Trade made it possible to reach reliable political commitments between very different countries**

# Thank you for your Attention

## For more information

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Or consult :

### Et pour quelques degrés de plus...

*By Christian de Perthuis, Pearson Edition, April 2009, English version forthcoming*

### Pricing Carbon : the European Union Emissions Trading Scheme

*By Frank Convery, Denny Ellerman and Christian de Perthuis, Cambridge University Press, forthcoming in 2010*

