



Emerging regimes: What lessons from the future?

CATEP & OECD Global Forum on
Sustainable Development: *Emissions Trading*

Richard Baron IEA-OECD
richard.baron@iea.org

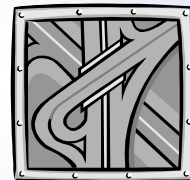
INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE



Existing and emerging markets

- Domestic systems: transitory?
- EU *industry-based CO₂* trading
- Kyoto Protocol (Articles 6, 12 and 17)
 - ◆ *Governments and entities* in Annex B
 - ◆ Projects in non-Annex I
- Outside / across Kyoto boundaries
 - ◆ Chicago climate exchange
 - ◆ Partnership for Climate Action, etc.
- Many roads to a global regime?



INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE



EU and rest of Annex B

- **EU Directive: no obvious door open to non-industry systems**
 - ◆ no access to AAUs other than allocated as allowances under Directive
 - ◆ a desire to put industry on the right path
- **Creates two markets under Kyoto?**
 - ◆ industry to industry in EU (+JI and CDM)
 - ◆ government to government

INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE



EU and rest of Annex B (2)

Different prices for different players

- **Industry under EU cap: its own supply and demand fundamentals**
 - ◆ profit-driven mitigation and transactions
 - ◆ limited access to “hot air” (via Green Investment Scheme-type transactions?)
- **Governments:**
 - ◆ will need to offset transport and other non-industry emission increases
 - ◆ limited alternatives (buy or not comply?)
 - ◆ access to “hot air” but risk of market power
 - ◆ non-economic considerations (int'l relations...)

INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE



EU and rest of Annex B (3)

Does this matter?

- **Efficiency: not enhanced by two price-regimes**
- **Politically:**
 - If gov't to gov't transactions are priced lower: will industry accept paying a higher price than other sectors which are *not* subject to international competitiveness?
 - an *efficiency* and an *equity* concern
- **Solutions? Not obvious**
 - ◆ Governments sell into EU trading system to bring prices down?
 - ◆ Remove barriers to increase supply

INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE



EU and non-Annex I

- **Vehicle for transactions: CDM projects**
- **Malta and Cyprus are inside the EU trading regime but outside Annex I: transactions as CDM?**
- **How to allow sales from M & C into EU?**
 - ◆ “Too small to worry”: sales of allowances to Annex I EU occur, are *not* reported on international transaction log - and governments make up difference to buyers
 - ◆ Malta and Cyprus join Annex I and take commitments via amendments to Convention and Kyoto Protocol
 - ◆ or make entities' caps in Malta and Cyprus eligible as CDM projects?
 - ◆ *Could set a precedent of linking non-Annex I trading systems with Annex I through CDM*

INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

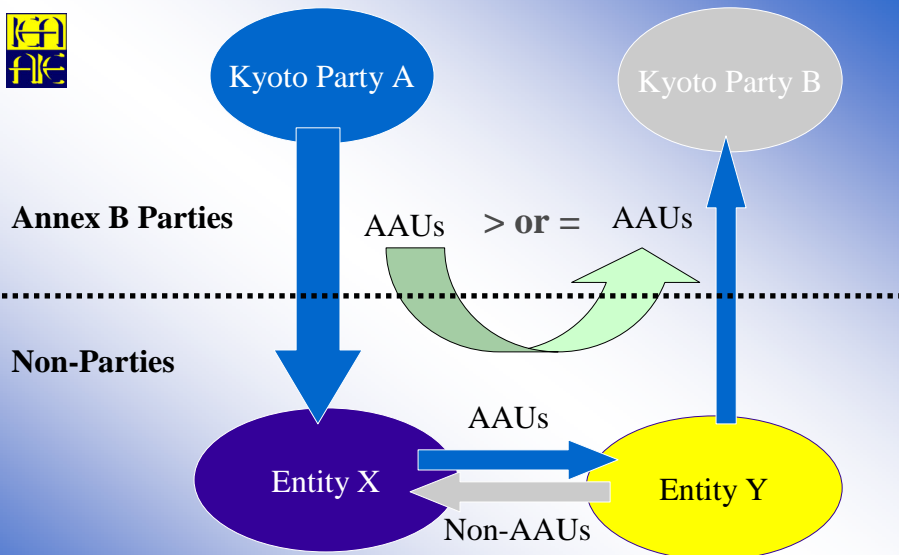


Non-Parties / Parties

- Interest for such transactions exist
 - ◆ Multinational entities located inside and outside Kyoto Parties
 - ◆ Voluntary initiatives at local levels may want to link up to broader Kyoto regime
- Dilution of environmental integrity?
 - ◆ Buying from Kyoto (or EU): always possible
 - ◆ Selling: technically feasible but limited to quantities bought

INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE



Source: Baron and Pershing 2002

INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE



Lessons?

- **Should start thinking now about evolution of the regime(s)**
 - ◆ From gov't / industry to all-encompassing
 - ◆ From Annex B trading regime only to non-Annex I trading regime
 - ◆ Non-Parties that could become Parties
- **Will well-developed but entrenched systems link up easily?**