

Brussels Conference Tackles Issue of Linking Emission Trading Schemes

The conference “Linking Schemes: Potential Impacts of Linking the EU Emissions Trading System with Emerging Carbon Markets in other Countries”, which was held on 29-30 May in Brussels, brought together stakeholders’ and expert knowledge currently available on this topic. The conference, organised by the Wuppertal Institute and funded by the German Ministry for Education and Research, was the first meeting that explicitly focused on the linking issue.

While the establishment of international entity-based emissions trading under the Kyoto Protocol appears to be a long way off, speakers suggested that linking the EU ETS with the emissions trading schemes currently emerging in almost all Annex B countries seems to be a pragmatic and the most promising way to develop an internationally linked carbon market in the mid-term.

Outlining the progress that has been made under the EU ETS, Damien Meadows of the European Commission emphasised that the Commission was expecting Member States to deliver their 2nd phase allocation plans on time by 30 June and was prepared to take action against states which did not do so. “My Commissioner does not want to see a repetition of the delays we experienced in the first round of allocation plans.” He also highlighted that the EU was open to link the EU ETS to schemes in other countries, provided that these were in principle compatible with the EU system.

Many contributions at the conference ascertained, however, that there was still a high level of uncertainty regarding the schemes under development in different countries. For example, after the change of government in Canada it is not yet clear what the cornerstones of the country’s climate policy will be in the future, as Johanne Whitmore from the Pembina Institute reported. Japan, on the other hand, has already started a small voluntary scheme this April, as outlined by Rie Watanabe from the Institute for Global Environmental Strategies (IGES). However, while the scheme contains an interesting combination of subsidies given by the state and emissions trading, it covers only a small number of companies and it runs for too short a time period to consider linking. On a more upbeat note, Yvan Keckeis from the Swiss Federal Office for the Environment noted that his country was making good progress on implementing its ETS and that linking it to the EU scheme by 2008 should be feasible.

James White from the National Emissions Trading Taskforce in Australia noted that progress is also being made with the state-based trading system under development down under. The Taskforce was currently elaborating a Green Paper with design proposals for submission to the state governments in mid-July. The aim was for the Australian scheme to come online by 2010. He cautioned though, that the states’ current commitment was only to consider establishing an ETS, but not yet to actually do it. He also noted that while the Commonwealth government was opposed to introducing emissions trading at the federal level, it has at least so far not made moves to block the states’ initiative.

Alexander Golub from Environmental Defense and Jos Cozijnsen from IC Consulting emphasised that discussion to establish a domestic ETS were also under way in Russia. However, initiatives were being held back by widespread doubts on whether anyone would buy Russian trading units.

Manik Roy and Kate Zyla from the Pew Center on Global Climate Change drew an optimistic picture of the lively debate currently ongoing in the US and highlighted proposals that have been made at the federal level (McCain-Liebermann, Bingaman, Feinstein) and at the state level (California, Oregon, RGGI). In their view the anti-Kyoto stance of the Bush administration may eventually turn out to have been a blessing since it triggered a reaction which has pushed US climate policy much further than it may have gone under a Democratic administration. Analysis conducted by Wolfgang Sterk from the Wuppertal Institute showed that a link of the EU ETS to trading systems in countries that have not ratified the Kyoto-Protocol such as the US or Australia are actually possible under certain conditions. However, as the two researchers from the Pew Center admitted, in the case of all current US initiatives international linking is only a minor issue and little attention is paid to how the design of a scheme may render it incompatible with other schemes the US might wish to link to.

The issue of compatibility of designs was expanded on by a number of speakers. With regard to the large design differences between the ETS envisioned by the previous Canadian government and the EU ETS, Delia Villagrassa from WWF asserted that this was a “lost opportunity” to establish a linked company-based carbon market across the Atlantic even if the plans were carried through by the new government. Alexander Savelkovl of Essent also outlined a list of key requirements non-EU systems would need to meet in order to be compatible with the EU ETS. In particular, systems would need to be mandatory and not include price caps.

Several contributions also addressed the potential economic impacts of linking trading schemes. Niels Anger from the Centre for European Economic Research emphasised that allocation in the EU ETS is currently very inefficient in that it allocates the covered sectors nearly everything they need and thus shifts most of the abatement necessary for Kyoto compliance to the non-trading sectors, where abatement is on average more costly. Kyoto compliance is therefore at the moment more expensive for the EU than if emissions trading had not been introduced. Moreover, linking the EU system in this current form to similarly suboptimal non-EU systems would cut costs but a very insignificant degree only. Katrin Rehdanz of Hamburg University noted that linked schemes may start to jockey for the position of being the net seller by imposing increasingly less stringent caps. The net buyer might in this case impose restrictions on trading. By exploring the economic effects of a possible linkage of the RGGI scheme with the EU-ETS, Tobias Person from CICERO came to similar conclusions.

While emissions trading promises to achieve reductions in greenhouse gases most efficiently, two contributions addressed the environmental dimensions of linked schemes. While Eric Haites from Margaree Consultants pointed out that there is a need for mutual confidence and mechanisms to continuously reassure the environmental effectiveness of linked schemes, Janina Onigkeit from the Center of Environmental Systems Research drew the attention on fairness aspects of linked schemes: The potential availability of cheap permits within the EU-ETS induced e.g. by linked schemes or CDM could easily shift required emissions reductions from the industrialised to the developing country. In the long-term perspective, as she pointed out, it is worthwhile to analyse how a cost optimisation of the EU-ETS to achieve short term targets influences the costs of more stringent mid- to long-term targets.

Besides the institutional and economic dimensions of linking, Ralf Schüle from the Wuppertal Institute embedded the linking debate into a broader context of the further evolution of the international climate regime by sketching three different parallel tracks of international mitigation

policy: Further development of the Kyoto track, domestic implementation of international commitments and further development of supplementary technology- or instrument-based parallel tracks. In this context, linking schemes might be one parallel track through which, inter alia the door is kept open for non-ratifiers to participate in the emerging international carbon markets and thus serve to draw them back into the fold. Moreover, linked domestic schemes may provide a fallback structure in the case of collapse of the international climate regime.

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Presentations available at (from June 12th on)

www.wupperinst.org/linkingschemes