



CEPS Side Event – COP16 - Cancún, Mexico

Comments on key messages #2,6,7,and 8

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Disclaimer: These views may not necessarily reflect the official Danish government position and are presented under the Chatham House rule by individuals with experience in the carbon markets. The presentation is based on the discussion points prepared for the CEPS side event at COP16.



- **Key Message # 2: Lessons need to be learned from existing carbon markets to improve future mechanisms.**
 - Kyoto was not designed to be a comprehensive and eternal solution to the climate change issues we face. It should be regarded as a starting point.
 - The EU ETS, CDM and JI have given us all a much better understanding of the operational and design challenges in adopting market based mechanisms. We now know that stable, consistent, yet flexible mechanisms need to be implemented whilst maintaining overall environmental integrity.
 - EU's proposal to ban HFC and N2O Adipic acid projects is one such initiative that enhances the overall environmental integrity of the system.



- What we need going forwards :
 - Enhanced efficiency, transparency, predictability and governance in the CDM & JI
 - Progress on up-scaled NAMA crediting and sectoral benchmarking
 - A long term domestic regulatory framework backed by an international agreement
 - The need to simplify mechanisms while insuring environmental integrity
 - Support for different mechanisms to meet different objectives

- All of the lessons learnt from the existing carbon market should not be discarded, we shouldn't "throw the baby out with the bathwater" when agreeing on the future mechanisms.

- Many lessons have been learned from JI, a mechanism that is given less than the fair share of the attention it deserves.

- For those who don't believe in the carbon markets as an effective tool, it is CRUCIAL for us to be as vocal about all the positive lessons that can be drawn from experiences so far, rather than focus exclusively on the shortcomings.



- **Key Message # 6:**

- Until a global agreement comes into force, the demand for international offsets will be determined by domestic or regional legislation.

- **Key Message # 7:**

- A common approach to the treatment of offsets will advance the integration of carbon markets.

- **Key Message # 8:**

- Domestic or regional legislation, or ideally a comprehensive international agreement, is needed to bring long-term predictability to the carbon markets.



- EU ETS has provided the lion's share of the demand in the first Kyoto period
- Other countries such as Australia, Japan, South Korea, Taiwan, China, and hopefully one day soon USA, are taking concrete measures to design domestic ETS' – with varying degrees of success and progress
- The cumulative demand for emissions reductions will come from domestic or regional cap and trade initiatives
- The importance of these sources of demand, especially in the interim period between Kyoto and its successor, cannot be understated. A recurring theme, as I am sure other commentators have addressed, is the need for long term predictability and the constructive utilization of the MOMENTUM that has built up during the first Kyoto period. Domestic and regional initiatives are vital in sustaining that momentum.
- The issue of long term predictability should not be confused with setting a particular price level for offsets. Although there is a strong argument for flexible mechanisms to be used as technology accelerators/enablers, let us not forget the primary objectives: to deliver environmentally sound emissions reductions in a cost-effective manner whilst aiming to promote sustainable development in host countries. Long term pricing signals can be useful but are not an end in themselves.



- Creating a supply/demand balance which still incentivizes market participation is one of the key challenges facing policy-makers
- The private sector has major issues with regulatory uncertainty or arbitrariness . e.g. Retroactive decisions. This has stunted participation in the carbon markets in the first Kyoto period.
- However, the development of ETS' around the world provides impetus to an eventual comprehensive and global agreement, whilst providing a fallback in the event that an agreement cannot be reached or is further delayed. Unilateral moves (such as an EU move from 20% to 30%) should therefore NOT BE DISCARDED, in light of the above.
- Some may argue that we are likely to see the emergence of a “system of systems” rather than one-stop solution to successfully continuing the legacy of the Kyoto protocol.
- It is clear that a common and harmonious approach to offsets will contribute to a more effective and transparent network of systems.
- One of the key challenges surrounding linking is ensuring that we don't end up with a lowest common denominator, and that the “weakest” ETS doesn't undermine the other domestic or regional systems.



Thank you for your attention

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