



# The carbon market after Copenhagen: challenges and the way forward for the EU

Prospectus for a CEPS Task Force

**1<sup>st</sup> meeting: 2 July 2010**

2<sup>nd</sup> meeting: September 2010

3<sup>rd</sup> meeting: October/November 2010

An interim report (Key messages) at COP16 in  
December 2010

4<sup>th</sup> and last meeting: February 2011

Followed by launch of a Report

Dates for all meetings will be confirmed at the first meeting.
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**Chair:** **Benoît Leguet**, Chair of the JI Supervisory Committee;  
Vice President for Research, CDC Climat

**Rapporteurs:** **Noriko Fujiwara**, Research Fellow and Head of  
Climate Change, CEPS

**Anton Georgiev**, Research Fellow, CEPS

**Christian Egenhofer**, Senior Fellow, CEPS

**Meeting venue:** Centre for European Policy Studies (CEPS)  
Place du Congrès 1, 1000 Brussels

## 1 Introduction

The Copenhagen Accord has brought a limited success in paving the way towards the creation of a wider and more inclusive framework succeeding the Kyoto Protocol. It is significant that for the first time heads of state from the US and four advanced developing countries, calling themselves BASIC (Brazil, South Africa, India and China) showed political will to strike a deal that was to become the Copenhagen Accord. On the other hand, the agreement, which was only taken note in a COP decision, is short of a legally-binding power, yet provides political guidance. The challenge is how to translate the political guidance into practical decisions that can be integrated in the overall negotiating package.

The most important outcome is the lack of a legal agreement on quantitative mid-term GHG emission reduction commitments by developed countries. Neither the Copenhagen Accord nor the continuation of the two UN tracks can send the clear and strong signal to both the carbon market and governments of developed countries that have hesitated to take decisive action without coordination. In addition, the lack of agreement on developed countries' future commitments would slow down mobilisation of private capital and investment flow to advanced developing countries where the largest and cheapest mitigation potential will be identified in coming decades. This raises a number of questions on the future of carbon markets including on the ETS.

Meanwhile EU's negotiating partner countries maintain options for development of domestic emissions trading schemes that could impact the possibility for linking with the EU-ETS. Whereas developed countries such as the US, Australia, and Japan have made some progress in legislative processes, advanced developing countries such as Republic of Korea, India, and Mexico are reportedly contemplating introduction of domestic market mechanisms that could provide the foundation and experiences for future emissions trading schemes. Nevertheless, direct linking between cap-and-trade schemes, initially envisaged in the ETS Directive, will likely remain the long-term goal of aspiration. In a mid-term, more promising policy options include indirect linking between cap-and-trade schemes (e.g. EU-ETS, RGGI) and existing or new flexible mechanisms (e.g. CDM, JI, sectoral crediting, sectoral trading, NAMA crediting, REDD).

## 2 Future challenges

There are three levels of challenges that could define the scope and course of discussion under the proposed Task Force: goals ("where we are heading for"); tools/instruments ("how to meet these goals"); and tool/instrument designs ("how to operationalise these tools/instruments"). Below key challenges are grouped and explained for their relevance to the Task Force.

### *Goals:*

There are three main goals of the EU climate policy that influence each other:

- enhanced mitigation actions to be driven by the 2020 emission target;
- development of a global carbon market anchored in the EU-ETS;

- scaling up financial flow to and investment in developing countries, especially emerging economies.

These three goals have been shared by a large majority of countries including emerging economies, and therefore key drivers of the EU climate policy aimed at a future global agreement involving all countries.

Although there are equally important goals such as sustainability, efficiency, competitiveness, job creation, and social welfare, they are not considered in this Task Force, because:

- i) climate policy will have a limited impact on solution (competitiveness, job creation, social welfare); or
- ii) such a goal is not widely shared across countries or prioritised as building blocks for a future global agreement (sustainability, efficiency, competitiveness, job creation, and social welfare).

*Tools/ Instruments:*

How to meet these goals will largely depend on how well the carbon market can function, especially in the forthcoming transitory period after 2012. The ability of the market boils down to the balance between demand and supply. In the context of a carbon market, demand is derived from the stringency of GHG emission target or commitment assigned to each country. Supply is derived from a sum of tradable units (e.g. allowances, credits) provided by existing or new flexible mechanisms, on the one hand, and by domestic cap-and-trade or offset schemes on the other. Key issues include:

- Reforming existing mechanisms (e.g. reformed CDM & JI)
- New mechanisms (e.g. REDD, sectoral crediting/trading and NAMAs)
- Interface between sectoral approach and NAMAs (e.g. transport)
- Opportunities to link with other markets
- Domestic offset projects

While there are other innovative tools under consideration like global carbon taxation, CEPS propose to concentrate on selected tools/instruments that have been subject to concrete proposals in ongoing international negotiations or in relevant jurisdictions.

*Tool/ instrument designs:*

Among the tools and instruments that are identified above, CEPS propose to further narrow down the focus on those established and operationalised under EU law, i.e. the EU-ETS and domestic offset schemes (e.g. community-wide, or member-state-led). Key issues include:

- EU-design: AAU, international offsetting, new sectors, new commodities
- Possibilities for completing and co-ordinating the designs of ETS (auctioning, price floors/caps, treatment of offsets, border measures)

While development in the US or other legislations needs to be carefully monitored, especially in their treatment of international offsets, examining their tool/ instrument designs in detail would be premature at this stage. There is also a limit for EU stakeholders to contribute to such discussion. On the other hand, it is important to anticipate the potential impact of any EU decision over new designs on the global carbon market, given

that the EU will likely remain the key player for years to come unless and until a future global agreement is reached.

The EU is currently examining the possibility for adjusting the 2020 GHG emission target from 20% to 30% reductions, which would alter the assumption of the effort-sharing decision and the amended ETS Directive including use of CERs/ERUs in the third phase. Ahead of the June European Council, the European Commission proposes to outline a pathway for the EU's transition to a low carbon economy by 2050, develop an analysis of milestones on the pathway to 2050, and prepare an analysis of policies which would be needed to achieve a 30% emission reduction. The Commission will also present its analysis on the state of energy-intensive industries at risk of carbon leakage with regard to their access to free allocation for the ETS in the third phase.<sup>1</sup> Emissions from non-ETS sectors can be addressed by domestic offsets.

Then, the EU-ETS will be in particular expected to play the following roles: to act as a nexus for expanding the carbon markets; to remain as the main instrument to achieve the EU's 2020 targets, and to drive the EU's long-term strategy for a shift to a low-carbon economy. Key design issues for completion and coordination of the ETS with implication for other ETSs include auctioning, price floors or caps, offset treatment, MRV and border measures.

Lastly, as the above points highlight, the forthcoming years will be marked by regulatory uncertainty, opportunities for testing innovative concepts and measures, and difficulties with maintaining the integrity of existing and new measures. The key to success would be the right timing of new measures, and smooth transitions between different measures or instruments.

### **3 Proposed Focus of the CEPS Task Force**

Against this background this new CEPS Task Force will

- Consider implications of ongoing policy development for the EU: UN negotiations and other international discussions (e.g. G20, MEF)
- Address key challenges of the future carbon market: demand and supply balance, the EU 2020 target, surplus AAUs, international offsetting and new mechanisms (e.g. transition from the CDM to sectoral crediting or sectoral trading), new sectors (e.g. maritime), new commodities (e.g. REDD units, NAMA credits, sectoral credits)
- Examine how effectively indirect linking through new commodities could develop into a global carbon market
- Explore possibility for completing and coordinating the designs of ETSs, e.g. MRV, auctioning, a price floor/cap, treatment of offsets, border measures

Ultimately, it is up to the members of the CEPS Task Force to set the final terms of reference.

### **4 How will the Task Force work?**

CEPS Task Forces constitute a unique forum of representatives from business and industry, various Directorate Generals from the European Commission (e.g. DG Climate Action, DG Enterprise, DG Mobility & Transport or DG ECFIN), member states,

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<sup>1</sup> European Commission, "International climate policy post-Copenhagen: Acting now to reinvigorate global action on climate change", COM (2010) 86 final, 9 March 2010.

Members and staff of the European Parliament, NGOs and other stakeholders to discuss highly topical issues in a multi-stakeholder setting. The objective of a task force is

- to create a *process* where controversial issues can be mulled over in open but structured discussions; and
- to publish key messages and policy recommendations for circulation to the policy circles in the EU and member states at the end of the Task Force.

For further questions, please contact Staffan Jerneck ([staffan.jerneck@ceps.eu](mailto:staffan.jerneck@ceps.eu)) or Noriko Fujiwara ([noriko.fujiwara@ceps.eu](mailto:noriko.fujiwara@ceps.eu)).

## 5 Conditions for Participation

The CEPS Task Force is principally designed for CEPS Corporate Members but participation is open to non-members as well, albeit at a higher fee.

The fee covers participation of one or several representatives of the registered institution in all workshops, documentation, lunches and three copies of all reports produced. If participants wish, CEPS will mail additional copies of the final report to persons identified by participants.

Participation fee for CEPS Corporate Members:	EUR 1.000
Participation fee for non-members or sponsorship <sup>2</sup> :	EUR 7.000

**Participation is free for government officials and all invited guests.**

For conditions, please contact [Staffan.jerneck@ceps.eu](mailto:Staffan.jerneck@ceps.eu) at +32 2 229 3910.

To register, please use the **Registration Form** in the **Appendix 2** of this document.

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<sup>2</sup> CEPS offers organisations to sponsor individual workshops. This includes participation in all activities of the Task Force.

## 6 Agenda for the first two meetings

This section provides an outline for the first two meetings to give an indication of the scope of CEPS Task Force.<sup>3</sup>

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### First meeting 2 July 2010

Possible topics:

- Implication of the Copenhagen Accord and update in the UN process (e.g. AWG meeting, SB-32) and other discussions (e.g. G20, MEF)
- The EU 2020 target and financing tools
- Future of the carbon market:
  - demand and supply balance;
  - reforming flexible mechanisms;
- Final terms of reference

#### Tentative Agenda

(speakers are not yet invited or confirmed unless otherwise indicated)

Venue:

Big Conference Room, Ground Floor, CEPS  
Place du Congrès 1, 1000 Brussels; Tel. +32 2 229 3956; [www.ceps.eu](http://www.ceps.eu)

9:30 Registration and coffee

10:00 **Introduction by the Chair**

10:10 **Introduction of participants**

10:15 **Introduction to the Task Force: The objectives, priorities, timing and the potential contribution of the Task Force to the policy debate**  
Noriko Fujiwara, CEPS (confirmed)

10:25 **SESSION I. Key challenges of the EU**

UN negotiation update and presentation of the new communication on the EU2020 target (10 minutes)  
DG Climate Action, European Commission (invited)

Innovative financing at a global level (10 minutes)  
DG Ecfm, European Commission (invited)

Comments (10 minutes) by  
NGO

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<sup>3</sup> All meetings will be held at CEPS (Place du Congrès 1, B - 1000 Brussels)

10:55 *Discussion*

11:50 **SESSION II. Key challenges of the future carbon market**

**Demand and supply balance** (10 minutes)

Stig Schjølset, Point Carbon (invited)

12:00 *Discussion*

12:30 Light lunch at CEPS

13:30 **Reforming the existing carbon market rules and safeguarding the ETS rules**

(including CDM reform) (10 minutes)

Ulrika Raab, Chair of the (completed) CEPS Task Force on the CDM and post-2012 flexible mechanisms<sup>4</sup> (invited)

Comments (10 minutes each) by

- Power sector
- Energy-intensive industry
- Technology companies

14:10 *Discussion*

15:30 **SESSION III. Agreement on final terms of reference**

**Proposal for the final terms of reference and next steps**

Introduction by **Noriko Fujiwara**, CEPS

*Discussion*

16:00 End of first meeting

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**Second meeting**  
**September 2010**

Possible topics:

- Key messages from the first meeting: key challenges of the future carbon market:
  - the EU 2020 target
  - financing tools
  - demand and supply balance
  - reforming flexible mechanisms
- The future carbon market (continued)
  - surplus AAUs
  - international offsetting and new mechanisms
  - new sectors

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<sup>4</sup> <http://www.ceps.eu/taskforce/cdm-and-post-2012-flexible-mechanisms> (Task Force activities);  
<http://www.ceps.eu/book/flexible-mechanisms-support-new-climate-change-regime-clean-development-mechanism-and-beyond> (Task Force report)

- new commodities
- Examine how effectively indirect linking through new commodities could develop into a global carbon market by steps

### **Tentative Agenda**

(speakers are not yet invited or confirmed unless otherwise indicated)

Venue:  
Big Conference Room, Ground Floor, CEPS  
Place du Congrès 1, 1000 Brussels; Tel. +32 2 229 3956; www.ceps.eu

10:00 Registration and coffee

10:30 **Introduction by the Chair**

10:40 **Key messages from the first meeting**  
Noriko Fujiwara, CEPS

10:50 **SESSION I. Key challenges of the future carbon market**

**Developing a global carbon market**

(including surplus AAUs, transition from CDM to sectoral crediting or sectoral trading, linking of ETSs) (10 minutes)  
DG Climate Action, European Commission

Comments (10 minutes) by  
industry

**Sectoral approaches to transport emissions**

(including maritime, aviation) (10 minutes)  
DG Mobility & Transport, European Commission

Comments (10 minutes) by  
NGO

11:30 *Discussion*

12:00 **New mechanisms and new commodities** (10 minutes each)

**REDD**, e.g. NGO

**Sectoral crediting and sectoral trading**, e.g. IEA

**NAMAs: the example of transport**, e.g. a researcher

12:30 *Discussion*

13:00 Light lunch at CEPS

14:00 **SESSION II. Opportunities for linking**

**An overview of recent market development** (including RGGI, voluntary markets) (10 minutes)

e.g. IETA

**Indirect linking through commodities: treatment of international offsets in domestic legislations** (10 minutes each)

**The EU** (e.g. ETS Directive), tbc

**The US** (e.g. Clean Air Act, senate legislations), tbc

The International Carbon Action Partnership (ICAP), tbc

14:30 *Discussion*

16:00 **Next steps**

*Discussion*

**The Chair's conclusion**

16:30 (at latest) End of the second meeting

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**Third meeting**  
**October/November 2010**

Possible topics:

- Key messages from the second meeting; key challenges of the future carbon market:
  - surplus AAUs
  - international offsetting and new mechanisms
  - new sectors
  - new commodities
- Possibility for completing and coordinating the designs of ETSs
  - MRV
  - auctioning
  - price floors/caps
  - border measures
- Outline of the interim report

**Tentative Agenda**

(speakers are not yet invited or confirmed unless otherwise indicated)

Venue:

Big Conference Room, Ground Floor, CEPS  
Place du Congrès 1, 1000 Brussels; Tel. +32 2 229 3956; [www.ceps.eu](http://www.ceps.eu)

10:00 Registration and coffee

10:30 **Introduction by the Chair**

10:40 **Key messages from the second meeting**

Noriko Fujiwara, CEPS

10:50 **SESSION I. Completing and coordinating the designs of ETs**

**MRV** (10 minutes), tbc

*Discussion*

**Auctioning** (10 minutes), tbc

*Discussion*

**Price floors or caps** (10 minutes), tbc

*Discussion*

12:30 Light lunch at CEPS

13:30 **Border measures** (10 minutes), tbc

*Discussion*

14:10 **Session II. Preparation for an interim report**

**Outline of the interim report**, a short paper of 10-15 pages (i.e. to be developed into key messages and recommendations for the final report) (10 minutes)

Noriko Fujiwara, CEPS

*Discussion*

16:00 **Next steps**

*Discussion*

**The Chair's conclusion**

16:30 (at latest) End of the second meeting

## **7 Preparation for launch of the Task Force report**

At the *fourth* and last meeting, the Task Force will discuss a draft of the final Task Force report and agree on the final text including key messages and recommendations. A draft will be circulated around two weeks ahead of the meeting for consideration of Task Force members.

Following the final meeting, the revised version will be circulated for approval by Task Force members.

While Task Force members are expected to agree on the thrust of the report, the key messages and recommendations, this does not mean that every member has to agree on

every single word, which will be expressed by the following disclaimer at the beginning of the Task Force report.

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The members of the Task Force engaged in extensive debates in the course of several meetings and submitted comments on earlier drafts of this report. Its contents contain the general tone and direction of the discussion, but its recommendations do not necessarily reflect a full common position agreed among all members of the Task Force, nor do they necessarily represent the views of the institutions to which the members belong.

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Launch of the interim report (Key messages) is foreseen at a UN side event in December 2010. Launch of the final report is expected in Brussels in 2011.

## Appendix 1

### Recent CEPS Task Forces on climate change and energy

*Flexible mechanisms in support of a new climate change regime: The Clean Development Mechanism and beyond*, CEPS Task Force Report, 2009 (Chair: Ulrika Raab, Swedish Energy Agency)

*Energy Policy for Europe: identifying the European added-value*, CEPS Task Force Report, 2008 (Chair: Knud Pedersen, Dong Energy)

*Global Sectoral industry approaches to climate change: the way forward*, CEPS Task Force Report, 2008 (Chair: Björn Stigson, WBCSD)

*Making the most of the G8+5 climate change process*, CEPS Task Force Report, 2008 (Chair: Gunnar Still, ThyssenKrupp)

*Shaping the Global Arena: Preparing the EU Emissions Trading Scheme for the Post-2012 Period*, CEPS Task Force Report, No. 61, March 2007 (Chair: Dan Gagnier, Alcan)

*Reviewing the EU Emissions Trading scheme, Part II*, CEPS Task Force Report, 2006 (Chairs: David Hone, Shell and Lasse Nord, Hydro)

*Reviewing the EU Emissions Trading scheme, Part I*, CEPS Task Force Report, No.57, July 2005 (Chairs: David Hone, Shell and Lasse Nord, Hydro)

*Market Stimulation of Renewable Electricity in Europe*, CEPS Task Force Report, No. 56, October 2005 (Chair: Antonio Pflüger, IEA)

*Towards a Global Climate Regime*, CEPS Task Force Report, No. 55, May 2005 (Chairs: Bo Kjellén, Former Swedish chief climate negotiator; Charles Nicholson, BP & David Hone, Shell)

*Business Consequences of the EU Emissions Trading Scheme*, CEPS Task Force Report, No. 53, February 2005 (Chair: Yngve Stade, StoraEnso)

*Completion of the EU Emissions Trading Scheme in the Emerging Global Climate Regime*, CEPS Task Force Report, No. 49, March 2004 (Chair: Charles Nicholson)

*Rethinking the EU Regulatory Strategy for the Internal Energy Market*, CEPS Task Force Report, No. 52, December 2004 (Chair: Dag Klackenberg, Vattenfall).

For copies, please see the CEPS website ([www.ceps.eu](http://www.ceps.eu))



## Appendix 2: Registration Form

I wish to participate in the CEPS Task Force on **“The carbon market after Copenhagen”**.

name:.....

title: .....

company.....

address:.....

.....

Postcode:.....Country:.....

e-mail:.....

Your reference, Custom Purchase Order N°. or cost Code N°: .....

VAT N° .....

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My company is a corporate member of CEPS and pays therefore 1.000 Euro (+ 21% VAT)

My company is not a corporate member of CEPS and pays therefore 7.000 Euro (+ 21% VAT)

My company is interested in becoming a corporate member of CEPS  
Please send additional information

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