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ICAO Colloquium on Aviation and Climate Change

Structure and status of the carbon market

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Overview

- UN agreements and negotiations
- Today's fragmented market
- How far we've come
- Possible future market directions



International frameworks

- UN Framework Convention on Climate Change
 - Stabilization objective
 - Common but differentiated responsibilities
- Kyoto Protocol under the UNFCCC
 - Annex I Party targets (2008-2012)
 - Almost universal participation
- Future negotiations (post-2012)
 - Further commitments under Kyoto (AWG-KP)
 - Long-term cooperative action (AWG-LCA)





Kyoto targets

Keep 1990
New Zealand
Russia
Ukraine

Increase above 1990
Iceland +10%
Australia +8%
Norway +1%

Reduce below 1990
Japan -6%
Hungary -6%
Poland -6%
US [-7%]
EU and most others -8%
(EU "bubble" range from +27% to -28%)

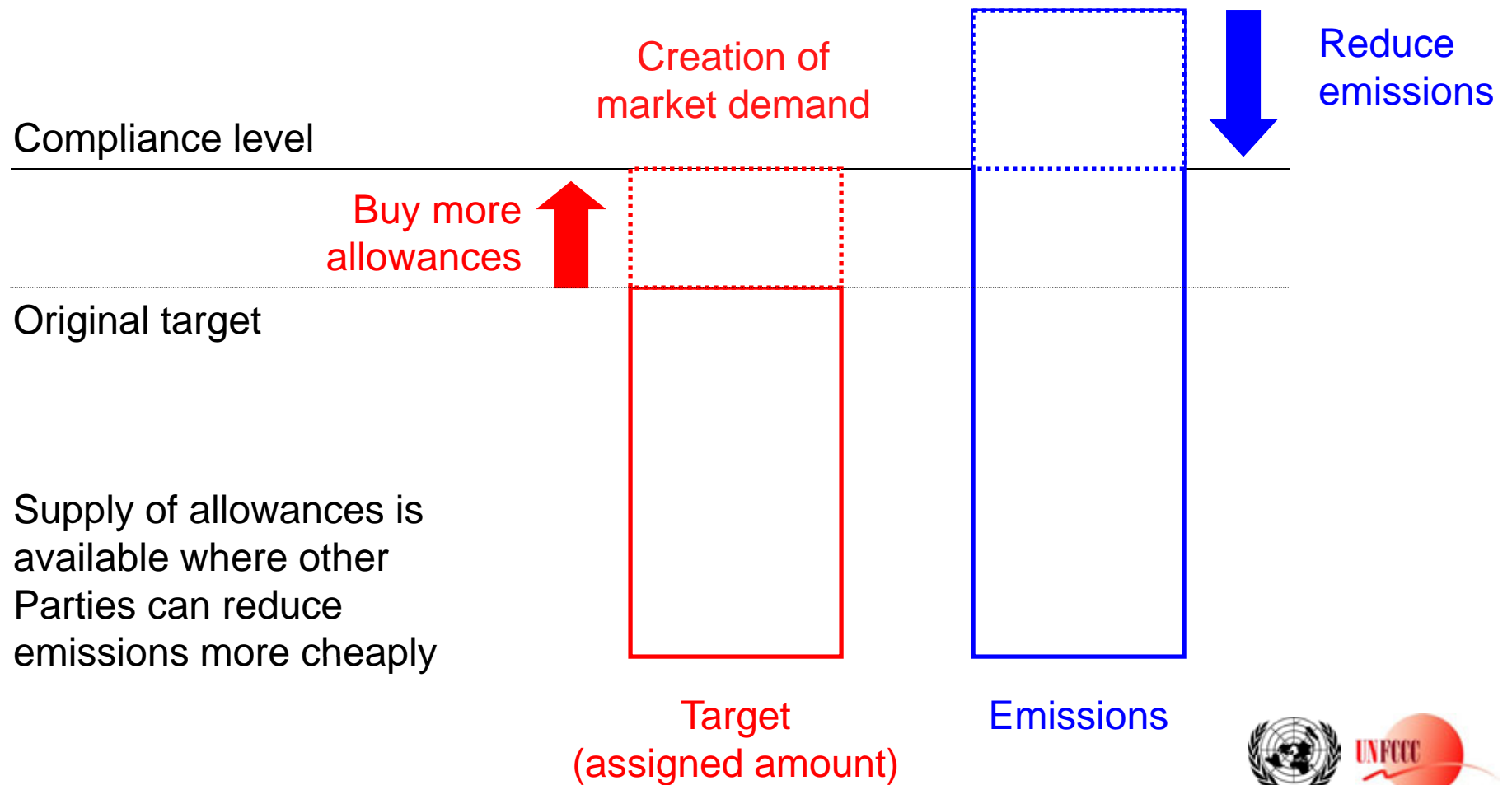
Measurement over the 2008-2012 commitment period

Targets met through domestic action and offsets





Compliance with flexibility





Credits through Kyoto projects

- Joint implementation projects
 - Investments in other developed countries
 - 300 projects in pipeline, over 6 million ERUs issued
- Clean development mechanism projects
 - Investments in developing countries
 - 2200 registered projects, over 400 million CERs issued
- 2000+ CDM projects upstream in the pipeline, up to a total of 2.9 billion credits by end 2012



Cap-and-trade at company level

- Regulatory trading schemes
 - Portion of national targets devolved to large emitters under domestic trading systems
 - System-wide caps, declining over time
 - To cover emissions: mandatory surrender of allowances and specified offset credits
 - Trading creates an opportunity cost for carbon
- Voluntary offset market
 - Companies voluntarily buy offset credits
 - Various certification standards available



Regulatory trading systems

EU emissions trading scheme	Mandatory cap-and-trade (3 phases) 12,000 industrial installations in 27 member states Covers about half of EU emissions International aviation to be included in 2012
New Zealand	Staged implementation of an ETS (2010-2015) Linking to other countries' systems expected
Switzerland	Voluntary cap-and-trade (as alternative to a CO ₂ tax)
Japan	Voluntary cap-and-trade, to gather experience Proposals now in parliament for mandatory ETS
United States	Federal cap-and-trade proposals facing difficulties RGGI already operational, WCI still promising
Australia	Cap-and-trade bill consideration postponed





How far have we come?

- Market has substantially matured to become a real factor when making investment decisions
- Enormous potential and interest for offsets
- Utility of trading approaches is proven
 - Driving the uptake of cost-effective abatement
 - Level playing field of incentives, within jurisdictions
- But the jurisdictions are hard to level, with introduction of domestic systems still difficult
- Goal of linking systems also still unfulfilled (so far)





Future international framework

- Focus shifting from Copenhagen to Cancun
- Copenhagen Accord as a political tool
 - 2°C maximum temperature rise
 - Pursuit of opportunities to use markets
 - \$30b funding to 2012, \$100b per year by 2020
- Drivers for scaling up the use of markets
 - Flexibility for meeting developed country targets
 - Add to public support for developing countries
 - Draw in further engagement of the private sector



Strengthening CDM

- CDM reform initiatives
 - Streamlining project procedures
 - Appeals process on projects
 - Strengthening DOE performance
 - Objectivity of project baselines
 - Project loans in low-CDM countries
- Higher gear changes
 - CDM standardized baselines?
 - New activities: CCS, nuclear, other forestry?



Sectoral crediting and trading

- Complement CDM with new instruments to focus on large scale emission sources
- Definition of sector baselines
- Credits issued at sector level and distributed
- Greater political involvement expected
- Many outstanding issues
 - Size of allowable offsets to domestic emissions
 - Many options on how they could work
 - Role for private sector engagement



Possible market directions

- A second commitment period for Kyoto would maintain assigned amount trading
- Decentralized entity trading framework, with attempts to link trading systems (OECD first)
- CDM continues (left as is or targeted to LDCs)
- New offset mechanisms for greater scale
- Greater integration of offset standards that are now only used on the voluntary market



Markets and aviation

- Significant long-term abatement opportunities
- Substantial de-carbonization may need more
- Key questions
 - How can the abatement be driven?
 - How can we ensure a level playing field?
 - Trading/offsets as a tool for the collaboration?
- Targets embody political decisions and set a common pathway for all to follow



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