



Institute for European  
Environmental Policy

# Introduction to the Carbon Market

Jane Desbarats, IEEP

# Introduction to the Kyoto Protocol



- Rio Earth Summit in 1992 produced UNFCCC
- Kyoto adopted in 1997
- Kyoto represents legally binding agreement
  - To reduce Annex I emissions by 5% over 1990 levels from 2008-2012
- Entered in to force Feb. 2005
- Ratified by 184 countries
- Common but differentiated responsibilities
- Detailed rules adopted at COP7 in 2001 – Marrakesh Accords



## Three distinct regions:

### **BUYERS:**

- 1) Annex I: Developed Countries
  - Annex I target: 5% reduction over 1990 levels from 2008-2012

### **SELLERS**

- 2) Non-Annex I: Developing Countries (G-77)
  - No target – can sell credits under the Clean Development Mechanism (CERs)

### **SELLERS**

- 3) Annex I: Economies in Transition
  - Surplus allowances allocated to countries in Eastern Europe (AAUs)
  - Credits sold under International Emissions Trading (AAUs) or Joint Implementation (ERUs)

# Overview of Different Currencies



## OFFSETS

**CER:** CDM

**tCER/ICER:** CDM

**RMU:** JI

**ERU:** JI

## EMISSIONS TRADING UNITS

**EUA:** EU-ETS

**AAU:** IET

## NON-KYOTO UNITS

**VER:** U.S. market, some corporates

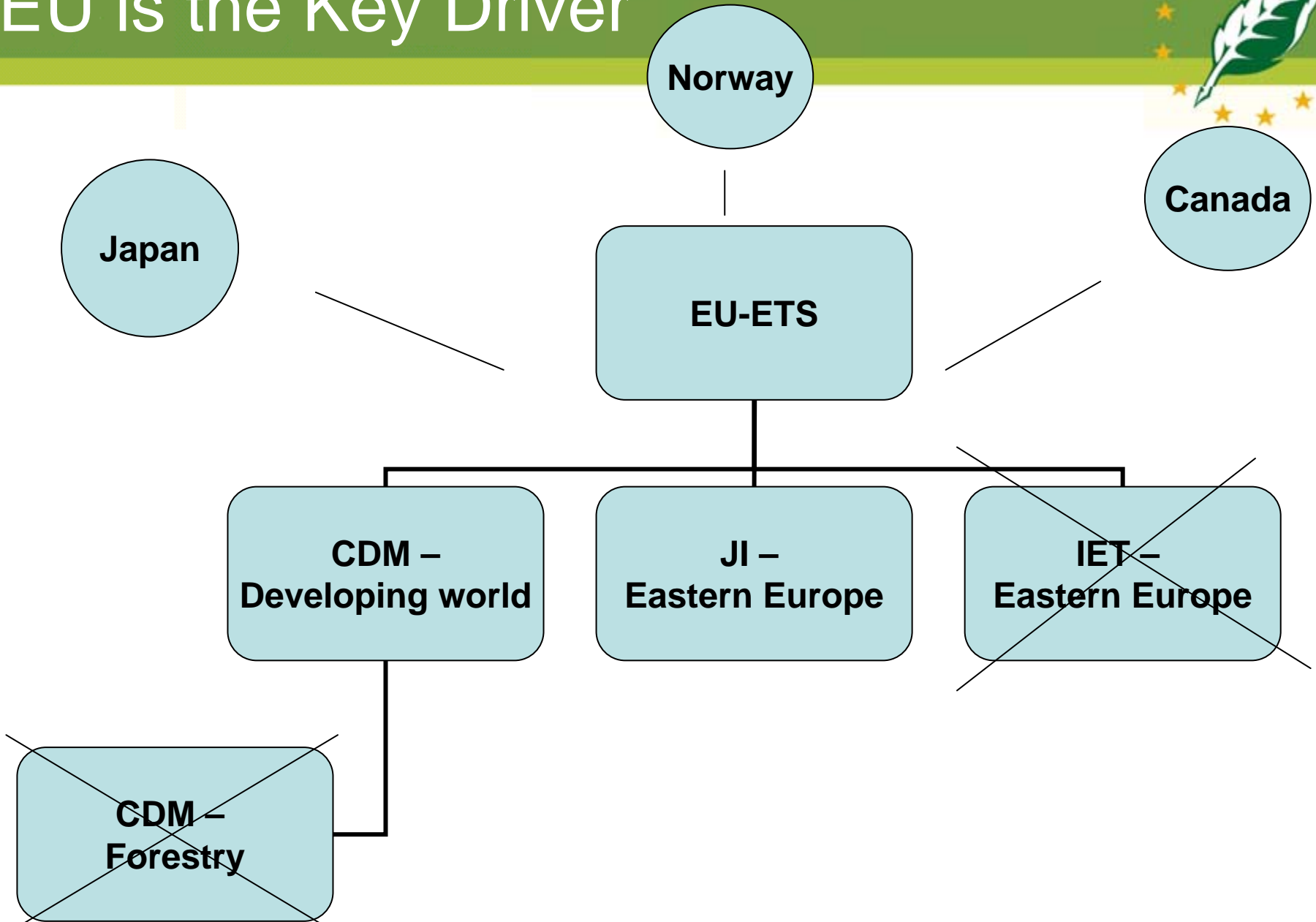
Fungibility: “a tonne is a tonne is a tonne”



## **Carbon trading to address a global problem:**

- Will the market be truly global?
- Will there be one currency that can be traded globally?
- Will the United Nations be able to successfully administer this? Importance of CDM Executive Board
- Limitations of the market: slow start, absence of the U.S., lack of harmonization
- Role of the EU: a true leader

# EU is the Key Driver





## What does EU-ETS exemplify?

- Importance of a compliance driver; use of penalties
- Need for solid carbon accounting and sound entity based reporting
- Maintaining a high price for carbon: Importance of carbon scarcity
- The importance of the EU Monitoring and Reporting Guidelines: **HARMONIZATION**
- Potential for linkages: EU bargaining position



- REDD issue
- Surplus carbon from Eastern Europe
- Expansion of EU-ETS - shipping
- Use of auctioning revenues in the EU
- Professionalism of CDM Executive Board
- Linkages to non-Kyoto and Kyoto markets
- Harmonized accounting standards
- Potential for sectoral CDM





- International Emissions Trading Association
- Project Developers Forum
- Governments
  - National treasuries from within the EU
  - Eastern European governments
  - Non-EU players
- Industry Associations



## World Bank State of the Carbon Market Report:

<http://siteresources.worldbank.org/NEWS/Resources/State&Trendsformatted06May10pm.pdf>

## Linking the EU's Emissions Trading System to any future US Emissions Trading Scheme:

<http://www.ieep.eu/publications/publications.php?pub=68524>

## Effort sharing under the Climate Package - assessing the role of the Clean Development Mechanism

<http://www.ieep.eu/publications/publications.php?pub=68528>

## Future of the EU ETS

<http://www.ieep.eu/publications/publications.php?pub=68531>