



Linking: Critical Issues & Practical Aspects

INECE Workshop on Emissions Trading

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- Climate change is happening – the scientific debate is over
- The cost of action to mitigate the risk of the worst impacts of climate are relatively modest. The human, physical and economic consequences of inaction are uncertain but unpleasant.
- Much of the technology required to reduce carbon emissions is available, but needs to be deployed at real scale to address the issue
- More and more CEOs are calling for action and challenging governments to provide the policy framework that will attract the investment into low carbon technologies

No silver bullet



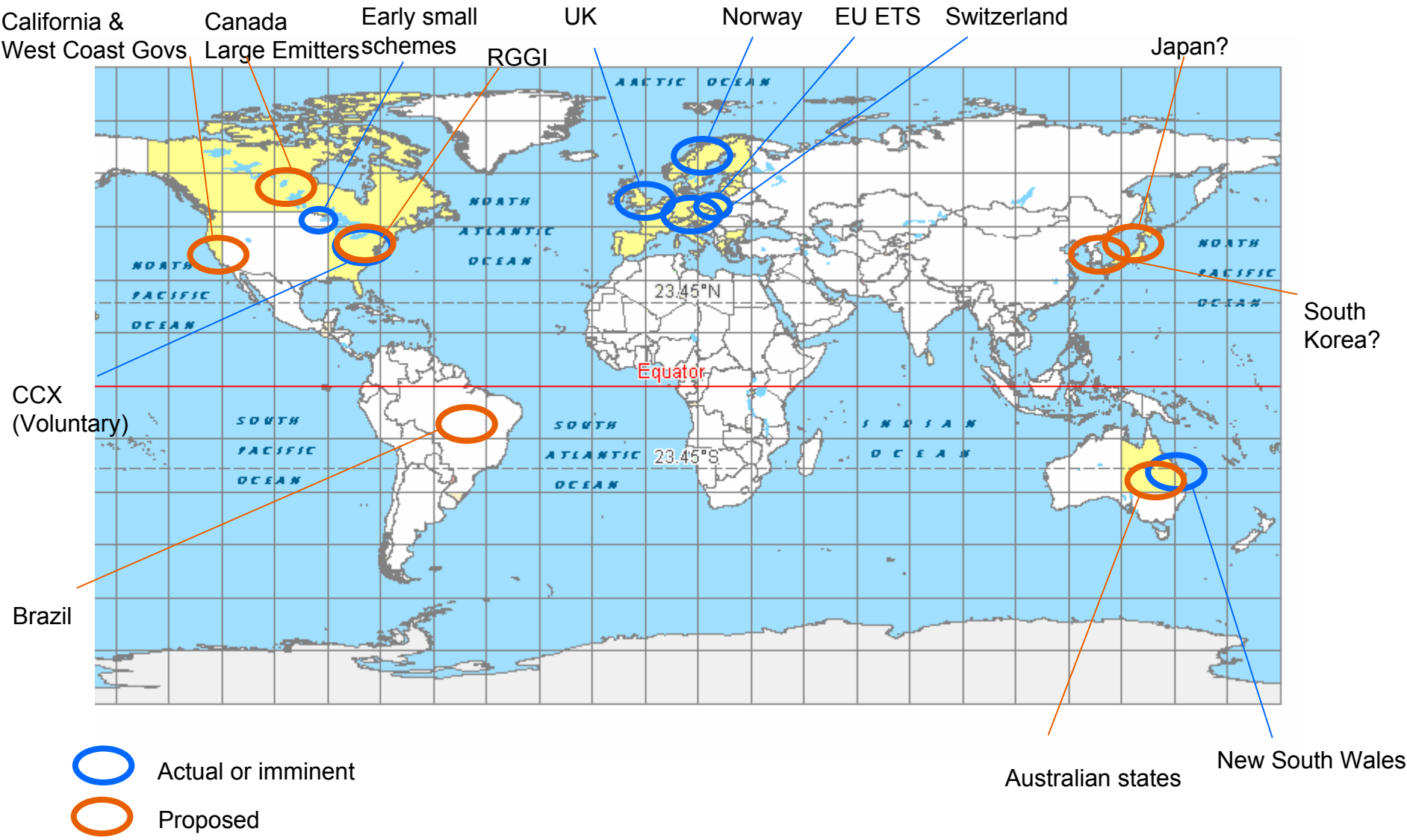
- Just as there is no silver bullet of technology.....
- there is no silver bullet of policy
- Regulating climate change is fundamentally different in nature to other environmental regulation – both in terms of the environmental impact and the scale of the economic implications. Should be intimately linked with energy policy.
- Establishing a global carbon price is essential, but not sufficient, need more targeted measures to incentivise the development of key technologies
- The solution is likely to be disparate and built up from national / regional initiatives

Bottom – up vs top -down



- National / regional governments will develop energy policy and climate change mitigation policy together
- Starting to see alignment on extent of reductions required from developed countries eg at least 60% reduction by 2050
- National target to set direction
- Establish an economy wide carbon price via trading, taxation and direct regulation
- Transitional incentives to drive new technology down the cost curve, eg renewable and biofuel obligations
- Removing barriers to diffusion of cost effective technology
- Wise use of regulation in the form of performance standards eg building regulations, vehicle efficiency standards etc

Existing & Developing GHG Markets





- Possible models
 - Global regulator (UNFCCC) with all allowances in national trading systems backed by common currency of AAUs
 - Mutual recognition of other schemes' allowances through bilateral or multilateral agreement
 - Indirect linking by recognition of a common allowance such as CERs from the CDM



- The (global) carbon market exists because of, and to serve the (global) environmental objective
- Value added
 - Economic efficiency
 - Access to capital markets
 - Risk (financial) management products
- Requirements
 - Transparency / accountability / integrity
 - Handling of market sensitive information / data

Challenges to linking



- Strategic
 - Equity issues
 - Sectoral coverage
 - Competitiveness
 - Method of allocation
 - Price caps / safety valves
- Enabling / facilitating / harmonisation
 - Registry design
 - MRV – a tonne is a tonne
 - Common systems, processes and tools

Moving forward – next steps



- Patchwork of national initiatives
- Focus the discussion
 - EU, US, China, India, Japan etc
- Identify the common elements
 - eg registry design, MRV etc
 - Develop the essential principles / features
 - Build on existing standards eg ISO 14064, 14065

Thank you

