

TWO DECADES OF INTERNATIONAL CARBON MARKETS – WHAT HAVE WE LEARNED?

**Promoting Carbon Markets in Canada: Lessons from Other
Markets**

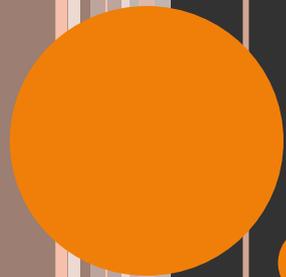
University of Ottawa Workshop May 13, 2010

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OVERVIEW

- Three periods:
 - 1990-1997 – Laying the foundation
 - 1998-2005 – Building Momentum
 - 2006 – present – Market maturing
- Key events in each
- How industry participated – with focus on Canada
- Concluding observations





1990-1997

Laying the foundation



1990-1997 LEGAL FRAMEWORK FOR THE START OF THE GLOBAL CARBON MARKET

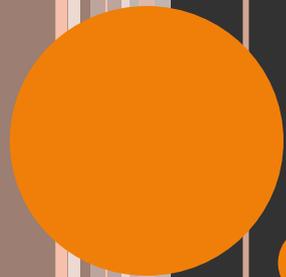
- UN FCCC Article 4.2.a “...*These Parties may implement such policies and measures jointly with other Parties and may assist other Parties in contributing to the achievement of the objective of the Convention*”
- **Why?**
 - profit-motivated means for private sector to move technology into developing countries
 - tacit recognition that markets will lower compliance costs
- 1995 - Berlin Mandate – no explicit mention of markets but implied via use of “*inter alia*” clause
- 1995-1997 – Activities Implemented Jointly – pilot – no credits officially given
- 1997 – Kyoto Protocol – establishment of Clean Development Mechanism (Article 12), Joint Implementation (Article 6) , International Emissions Trading (Article 17)



1990-1997 WHAT CANADA'S PRIVATE SECTOR WAS SAYING BEHIND THE SCENES

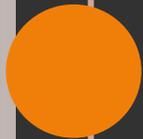
- Voluntary domestic actions only
- But if mandatory requirements were placed on private sector, must have **unlimited access** to international emissions markets
- 1994 – Prime Minister Jean Chrétien on carbon taxes:
“Relax. Relax. ...it’s not on the table and it will not be on the table.”
- Canadian transactions made up over 33% of the global carbon market in 1996 – mainly OPG and TransAlta (today: less than ¼% of global market)
- June 1997 – Canada, US, UK, Russia, and others: inaugural meeting of GHG Emissions Trading Forum which evolved in 1998 to the International Emissions Trading Association





1998-2005

Building Momentum



1998-2005: BUILDING MOMENTUM

- 1998 – Buenos Aires Plan of Action to develop the detailed market architecture
- 2001 – **Marrakesh Accords** provided legal basis for operationalizing Kyoto Mechanisms. Highlights included:
 - **No limits on** use of international credits for domestic compliance
 - Exclusion of nuclear power from CDM and JI
 - Priority to small scale projects in CDM
 - Eligibility criteria for market participation
 - Commitment period reserve established
 - Guidance on sinks
- February 16, 2005 – KP enters into force
- UK Emissions Trading Scheme starts in 2002



1998-2005: PRIVATE SECTOR BEHIND THE SCENES – LEARNING BY DOING

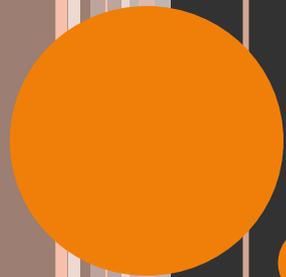
- 1998 – Shell and BP develop internal carbon emissions trading schemes
- IETA builds global membership- brings large industrials together with large financial institutions, market makers
- World Bank carbon funds emerge
- Financial community (brokerages, banks, project developers) begin to move into carbon
- Center of influence migrates to Europe, in particular the UK
- Private sector large influence on UK Emissions Trading Scheme
- 2003 – Chicago Climate Exchange (CCX) opens



1998-2005 WHAT CANADA'S PRIVATE SECTOR WAS SAYING AND DOING

- US decision to pull out of Kyoto Protocol puts Canadian producers at competitive disadvantage
- Sustained interest in market mechanisms but with cost controls
- Most large emitters develop corporate climate change strategies based on access to markets or price guarantees
- Exhaustive studying of options as part of Climate Tables Process
- 8 large Canadian emitters participate in design phase of \$800 million Natsource Compliance Fund
- Momentum builds for a “Made in Canada” approach





2006 TO PRESENT

Market maturing



2006 TO PRESENT: MARKET MATURING

- EU ETS creates first significant compliance market
- CDM learns by doing – some major growing pains
- 2008 – JI projects Begin to generate credits (ERUs)
- 2008 – State and provincial governments fill void created by lack of national plans in Canada and the US
 - **WCI** releases plans for Cap and Trade September 2008;
 - **RGGI** holds first auction September 2008;
 - **Alberta** implements limits on large emitters starting in 2007.
- 2009 – Recession creates drop in carbon markets, and EU allowances become financial assets
- Resentment to Wall Street spills over to markets discussions in Copenhagen talks
- 2009 and 2010 market “scandals” in EU
- *May 12, 2010 – Kerry & Lieberman introduce energy and climate bill*



2006 TO PRESENT: PRIVATE SECTOR

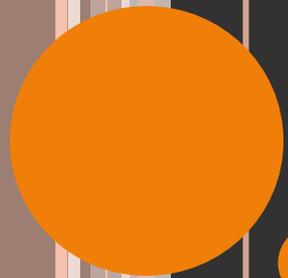
- Significant growth in market participants in Europe and Japan
- Large banks test waters of carbon markets, but 2008-2009 recession takes a toll
- Accounting rules, deal structures, exchanges, carbon investment and carbon compliance funds all provided through private sector
- Voluntary market persists, but fails to really take off
- Continued uncertainty in North America, Copenhagen failure and 2008-2009 recession have dampened rapid growth of carbon market



2006 TO PRESENT – WHAT CANADA'S PRIVATE SECTOR WAS SAYING AND DOING

- Cost control
- Investment in technology in Canada
- Acquiesced to limits on use of international credits as compliance option
- Canadian system must be lock-step with the US
- Trading desks and carbon market expertise disbanded or moved to other priorities in face of recession and policy uncertainty
- **Carbon taxes now being advocated** by some sectors who can pass along costs – *180° change since early 1990's*





CONCLUDING OBSERVATIONS

20 YEARS OF INTERNATIONAL CARBON MARKETS: WHAT HAVE WE LEARNED?

1. Design is important, but political commitment and follow-through is paramount
2. Voluntary markets have a limited role, but real action only comes in compliance markets
3. CDM stimulated limited investment in developing countries but not on a scale needed to affect significant technology transfer
4. Private sector, when faced with “clear and present” political commitment, can be relied on to develop an efficient market infrastructure
5. Carbon markets can be ambushed by other events

