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Carbon Trading in Asia

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Overview

- Carbon trading in Asia needs to be seen in the context of what is happening.
- Paris Agreement includes Article 6 which addresses international cooperation towards NDCs.
- Given the provisions of the Paris Agreement, where all Parties have put forward NDCs, international cooperation and carbon trading becomes increasingly important.
- South-South cooperation is increasingly important in the overall context of carbon pricing.
- Carbon trading can
 - Contribute to NDC implementation directly
 - Given the climate change objective in general and mainstreaming, facilitate cooperation in other areas

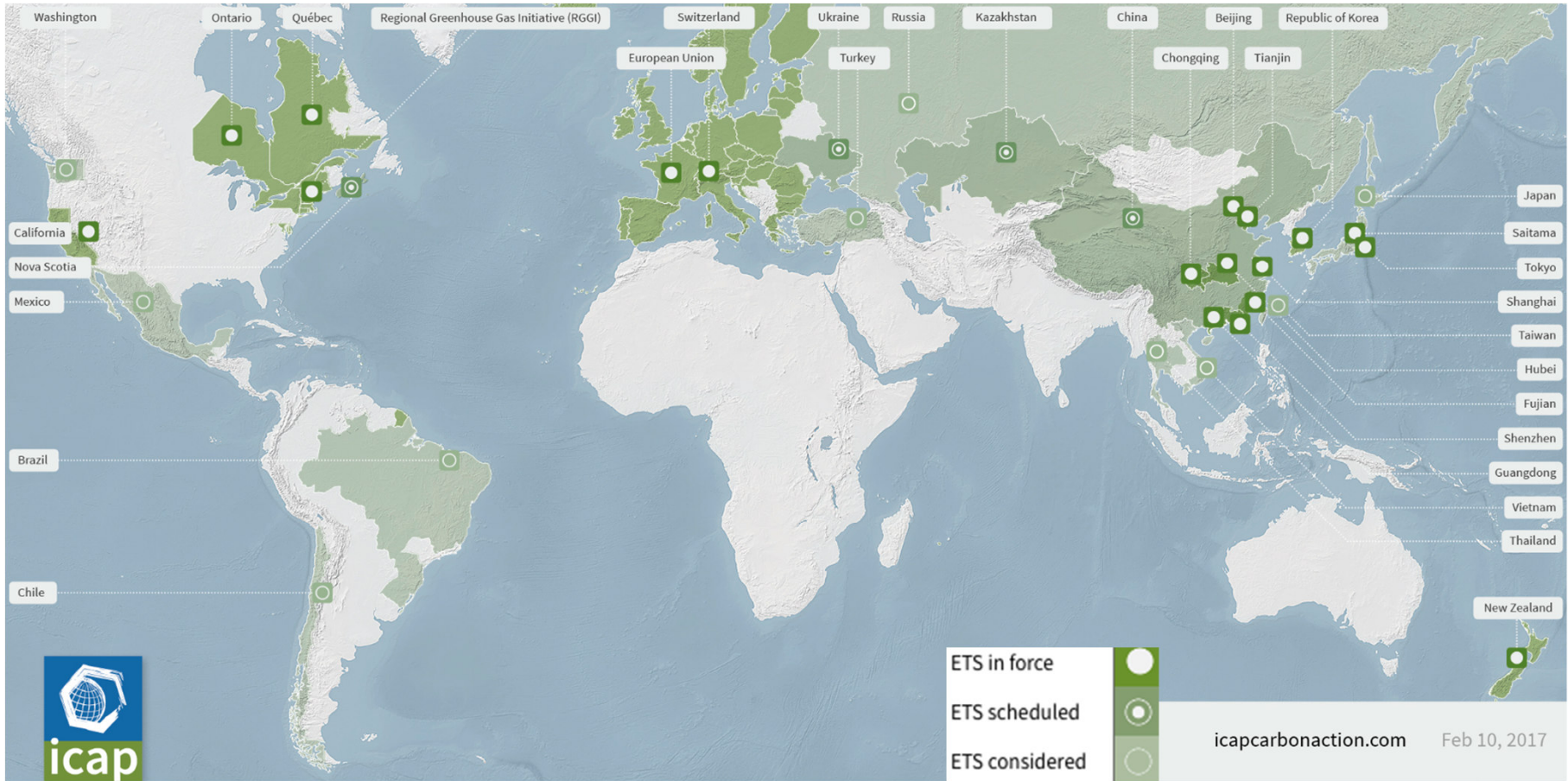
Overview

- Article 6 addresses the governance of transfers of mitigation outcomes (MO) between Parties and offers alternatives in terms of the governance used
 - Under the governance of the Parties that engage in such cooperation
 - Under multilateral governance represented by the CMA or bodies nominated by it
- At the national, regional, and international level, carbon markets are playing an increasing role.
- **The following two figures show the extent of carbon markets today.**

ICAP ETS Map

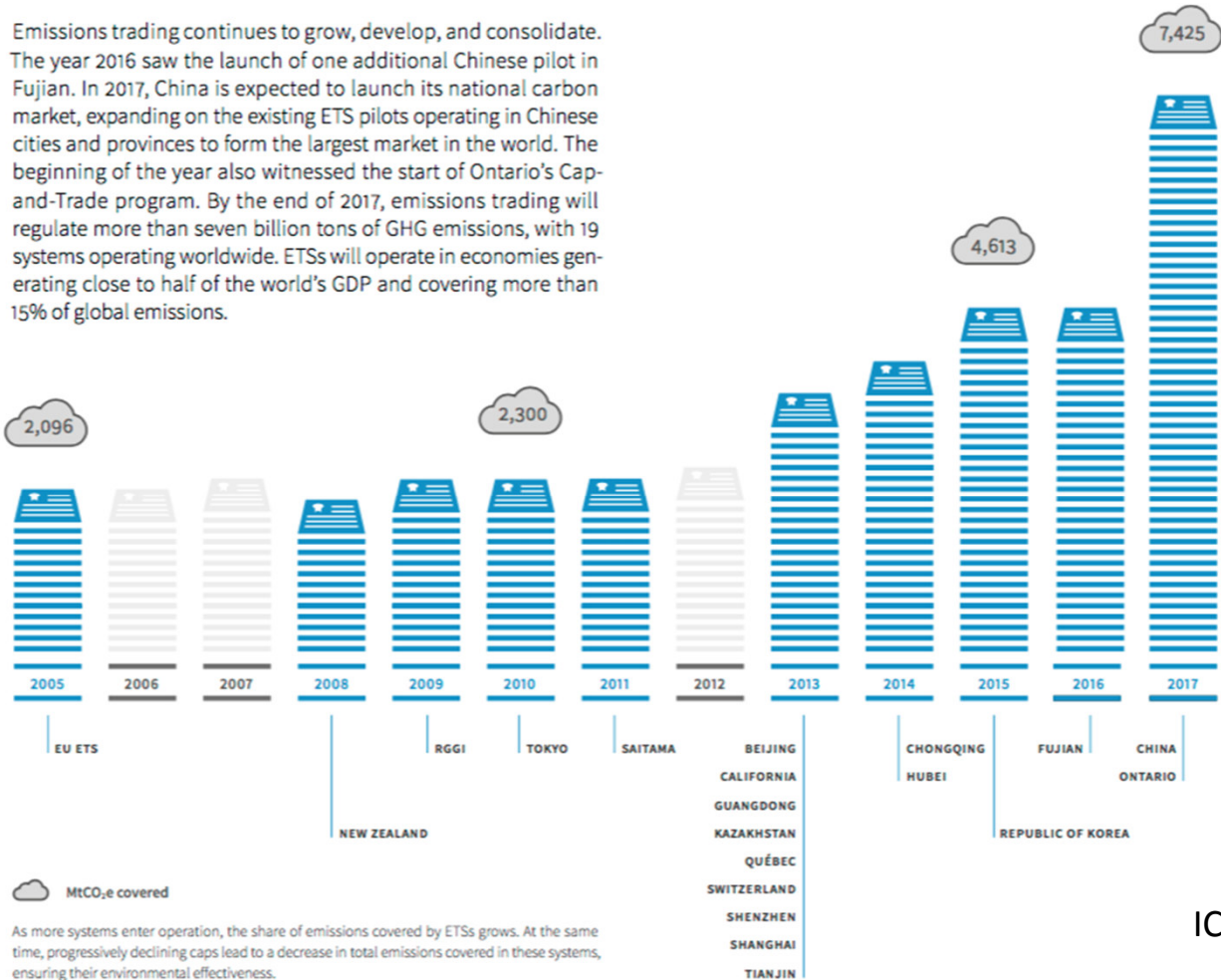
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ICAP Global Trends in Emissions Trading

Emissions trading continues to grow, develop, and consolidate. The year 2016 saw the launch of one additional Chinese pilot in Fujian. In 2017, China is expected to launch its national carbon market, expanding on the existing ETS pilots operating in Chinese cities and provinces to form the largest market in the world. The beginning of the year also witnessed the start of Ontario's Cap-and-Trade program. By the end of 2017, emissions trading will regulate more than seven billion tons of GHG emissions, with 19 systems operating worldwide. ETSs will operate in economies generating close to half of the world's GDP and covering more than 15% of global emissions.



2016
China introduced a pilot scheme in Fujian

2017
Awaiting Chinese carbon market launch
Ontario cap and trade introduced
Emissions trading will soon regulate over 7 billion tons of GHG emissions and operate within countries which represents nearly half global GDP, covering nearly 15% emissions.

ICAP, 2017

Overview

- The important contribution of markets is in a number of areas
 - Setting a price for carbon
 - Making rational economic decisions
 - Increasing economic efficiency of decarbonization and free resources for other priorities
 - Recognizing and addressing issues of competitiveness
 - Interacting with international trade law
 - Contributing to technology transfer and diffusion
 - Allowing to raise the level of ambition to reduce GHG/CO₂

International Carbon Markets

- Carbon markets 1.0 under the KP was characterized by:
 - Centralized governance
 - CERs were a commodity issued by UNFCCC
 - Investment in Asia from Annex 1 countries for CDM projects, no KP commitments from Asia except Japan
 - Totally dependent on EU and Japan for demand – price takers
 - Some contribution to
 - Technology transfer
 - Capacity building
 - Awareness of climate change
 - Awareness of carbon pricing

International Carbon Markets

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- Carbon markets 2.0 is emerging under the PA, characterized by
 - Decentralized governance
 - UNFCCC as well as national commodities
 - Expected to facilitate and enhance South-South and regional cooperation
- Different models are emerging for international carbon markets
 - Regional focus
 - Economic and trading links playing an important role
 - Regional hubs being created (Quebec/California/Ontario), Pacific Alliance, Japan/Korea/China discussion papers)
 - Increasing focus on technology and other types of trans-boundary cooperation to meet NDCs



Carbon Markets in Asia

- Carbon Markets 1.0 saw good participation from Asia
- **Statistics on Asia**
 - **7785 registered CDM projects globally – 83.8% in Asia-Pacific (UNFCCC - Oct 2017)**
 - **340 657 million/340.657 billion US\$ invested in CDM projects in Asia-Pacific (UNEP DTU CDM Pipeline - Feb 2017)**
- Asia participation and focus in Carbon Markets 2.0 can be expected to be different, as all countries now have NDCs and selling will need to be balanced with the need to meet NDCs.
- Carbon pricing can be expected to develop in different ways in different areas of Asia.
- Markets and pricing can be expected to develop nationally. The international component may evolve slower as demands ramps up and national design is cleared

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- Regional cooperation can be expected to play an important role and will be able to contribute from the point of view of:
 - Market functioning
 - Environments
 - Economical
 - Strategic contribution
- Contributions will be in the areas of:
 - A better functioning market
 - Better monetization of local assets
 - Better integration in global carbon markets and pricing
 - Contribution to the pillars of regional cooperation and integration, especially on Trade and Investment, Regional Public Goods, and Technology Transfer and Diffusion



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- Market Functioning
 - From a market perspective regional cooperation will ensure that there is better liquidity and price discovery
 - Most countries will not have enough liquidity
 - Will increase efficiency and reduce volatility
 - Large markets such as the EU have suffered from cyclical imbalances leading to lack of long-term price predictability for investment
- Environmental benefits
 - Energy and deforestation are an important source of emissions
 - Carbon trading increases efficiency of decarbonization and can help with increasing levels of ambition
 - This results in lower GHG emissions but also in lowering other types of emissions. This will result in an increase benefits from regional public goods including air quality from lower power plant emissions and reduced deforestation, including lower forest fires.



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- Environmental benefits (cont'd)
 - Increased cooperation on the use of major waterways, such as the Mekong River are another co-benefit that may emerge national and regional carbon markets
- Economic benefits
 - Increased efficiency of decarbonization
 - Better use of regional resources.
 - Increase in investment in Asia for carbon related assets. Redirect international carbon flows in areas that they may not traditionally have gone
 - Help facilitate economic integration.
 - Help avoid carbon leakage and competitive concerns.
 - Technology transfer and diffusion



Carbon Markets in Asia – challenges ahead

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- Capacity to develop and operate markets
- Carbon pricing will make industries less competitive unless applied by trade partners
- Ability to put in place measures to manage the socio economic impact of carbon pricing
- Capacity to understand a multitude of new carbon trading/pricing schemes emerging
- Market not deep and liquid enough to operate independently
- Reluctance to trade until impact of NDCs is well understood
- Clarity emerging from the PA rules & progress
- Not being left outside emerging “carbon clubs” which may have trade implications

