



The Beesley Lectures 20th Annual Series
Analysing Regulated Industries

WHAT'S WRONG WITH CARBON TRADING?

Institute of Directors,
London, 30 September

Henry Derwent,
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And not just aviation....



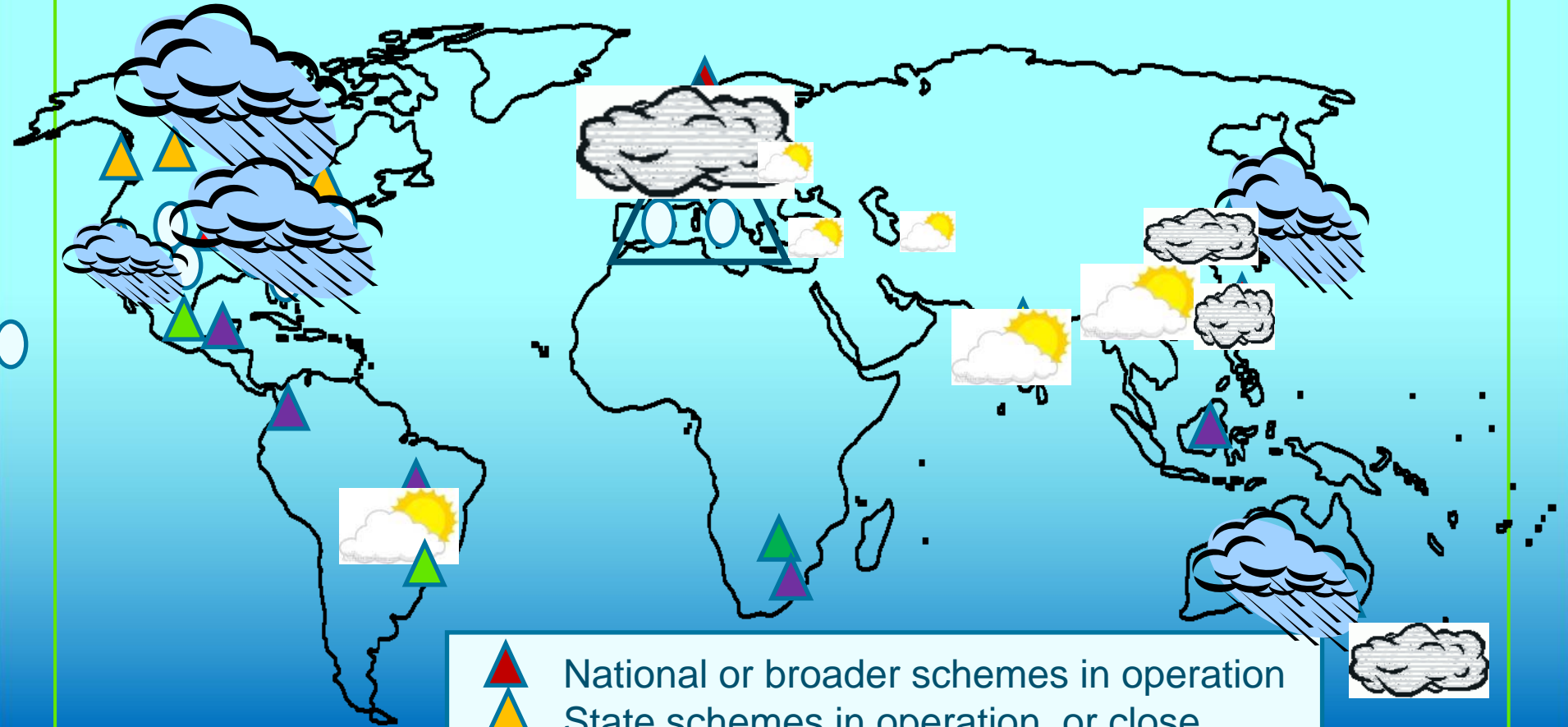
2009 Global Carbon Market Volumes








	2008		2009	
	MtCO ₂ e	US\$m	MtCO ₂ e	US\$m
EUETS	3093	100526	6326	118474
Others	162	692	880	2346
AAUs	23	276	155	2008
Prim CDM	404	6511	211	2678
JI	25	367	26	354
Vol Mkt	57	419	46	338
Secondary	1072	26277	1055	17543
TOTAL	4836	135066	8700	143735

Source World Bank



Stormy Weather: The Current Trading World



-  National or broader schemes in operation
-  State schemes in operation, or close
-  National scheme before legislature
-  National scheme in preparation
-  National scheme under consideration
-  Major offset suppliers
-  White Certificate schemes



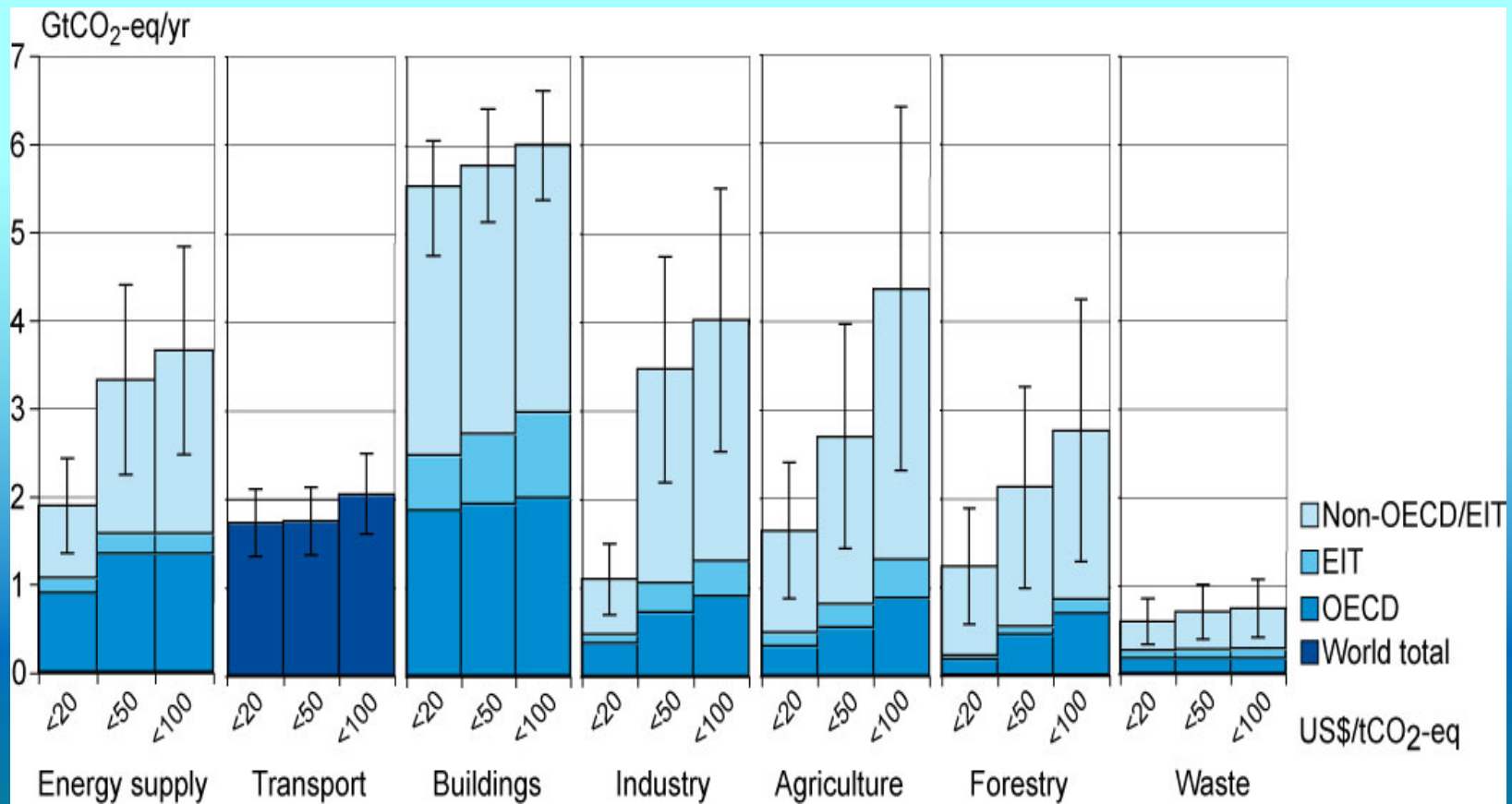
The Arguments for a Trading-based System

1. Countries are prepared to **commit to emissions reduction totals** sufficiently aggressive to make searching for the lowest cost delivery methods a high priority
2. It makes economic sense to reduce emissions **where it is cheapest to do so**
3. It is a matter of **environmental indifference where on the planet** emissions reductions take place
4. **Trading is a more efficient** mechanism for achieving emissions reductions than tax, regulation or Government support
5. There is a trusted **emerging international regime** for accounting and baseline construction
6. Different companies will have **different marginal abatement cost** curves, driving a series of « make or buy » decisions
7. Some of these **differences will be temporal ones**, justifying temporary purchases
8. **Some countries and companies** will not have emissions reduction targets for some time, or ever; nevertheless they can produce reductions on the basis of sub-country (or at least project) baselines



Different reduction costs in different places

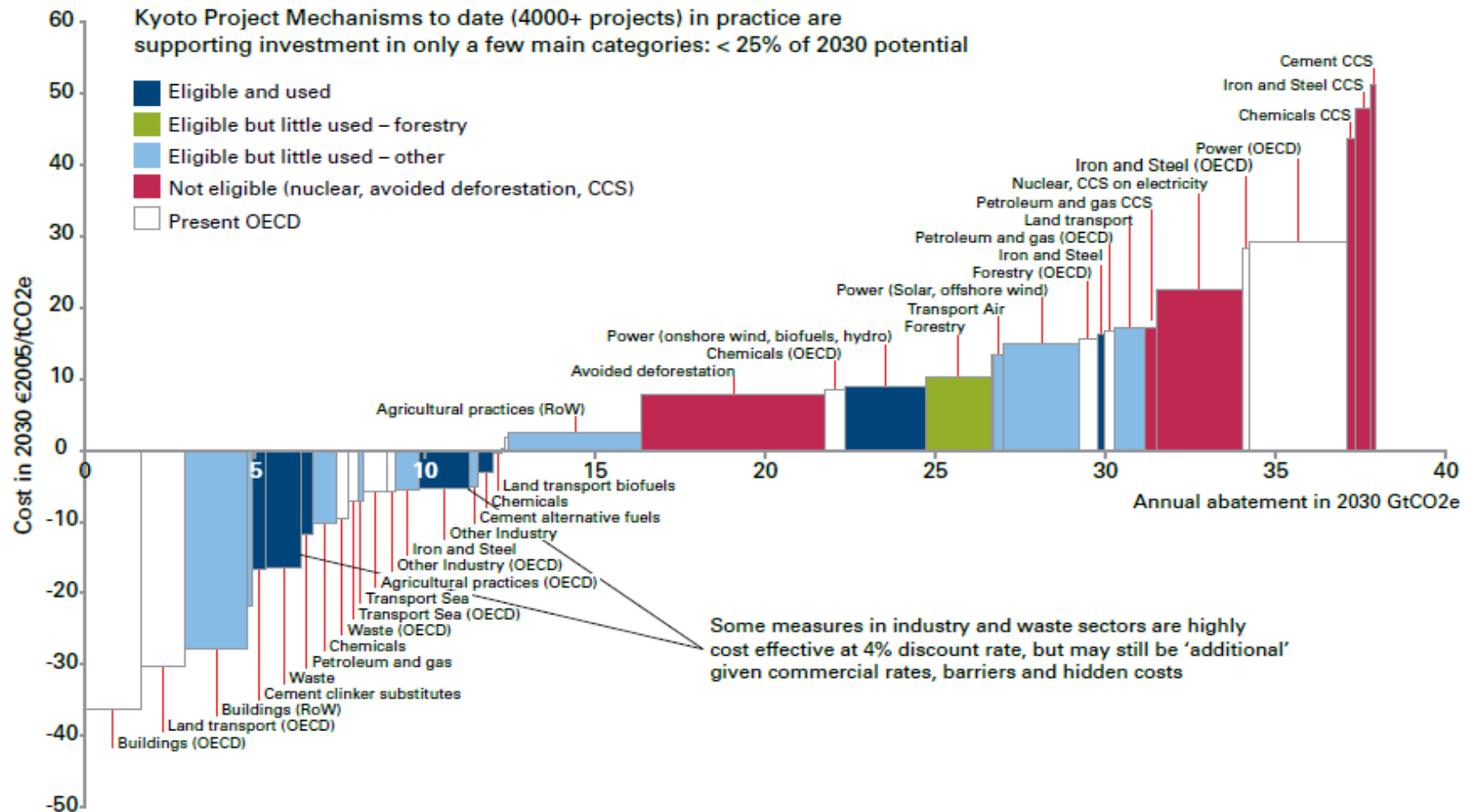
Availability of reduction possibilities by region at different carbon costs:



Source:
IPCC 4AR



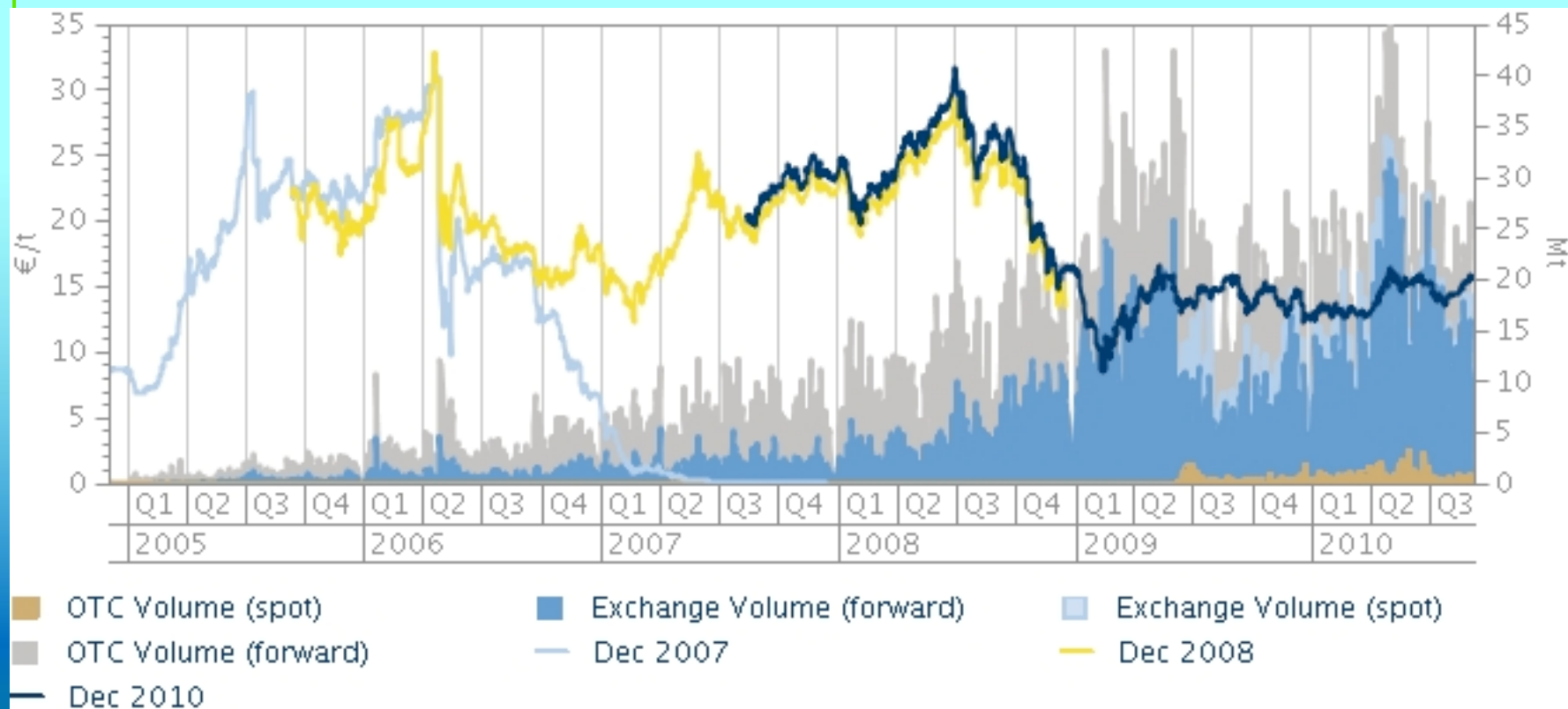
Marginal Abatement Cost Curves are Different for Everyone



Source: Carbon Trust (2009), using McKinsey data from *Pathways to a low carbon economy* (2009)



The EU-ETS: a pretty normal market



Source: Point Carbon



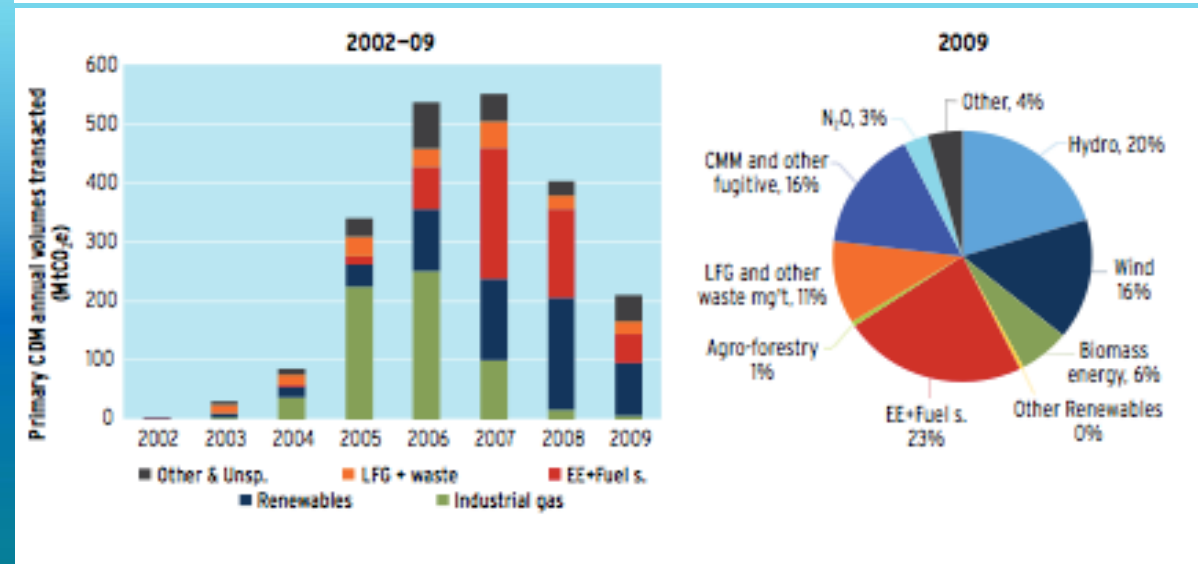
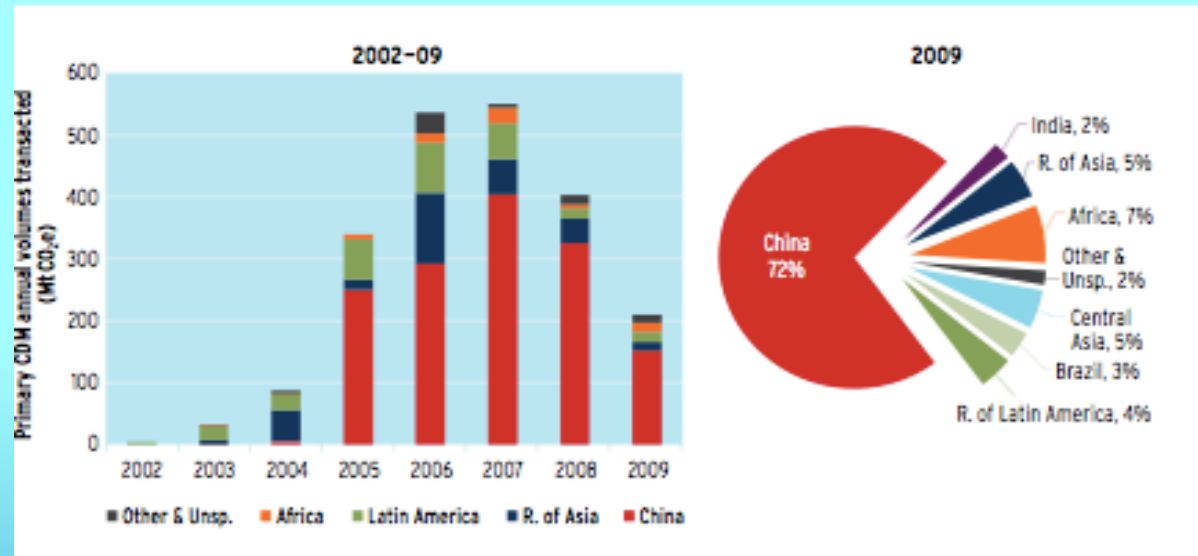
The Counter-Arguments

1. Countries are prepared to commit to emissions reduction totals...
 2. It makes economic sense...
 3. It is a matter of environmental indifference where...
 4. Trading is more efficient...
 5. There is a trusted regime for accounting...
 6. Different marginal abatement cost curves...
 7. Some of these justify temporary purchases...
 8. Some countries and companies will not have emissions reduction targets for some time..
1. No – it's the economy, stupid, and the climate can wait
 2. No – that would involve sending money, jobs and competitiveness abroad
 3. No – we can't trust other countries' supposed efforts
 4. No – tax is more efficient and trading has been revealed as a disaster
 5. No – the UN and the EB are incompetents, foreigners or sharks
 6. No – companies should take low-carbon investment decisions
 7. No – do it right now
 8. No – this is a failed business model



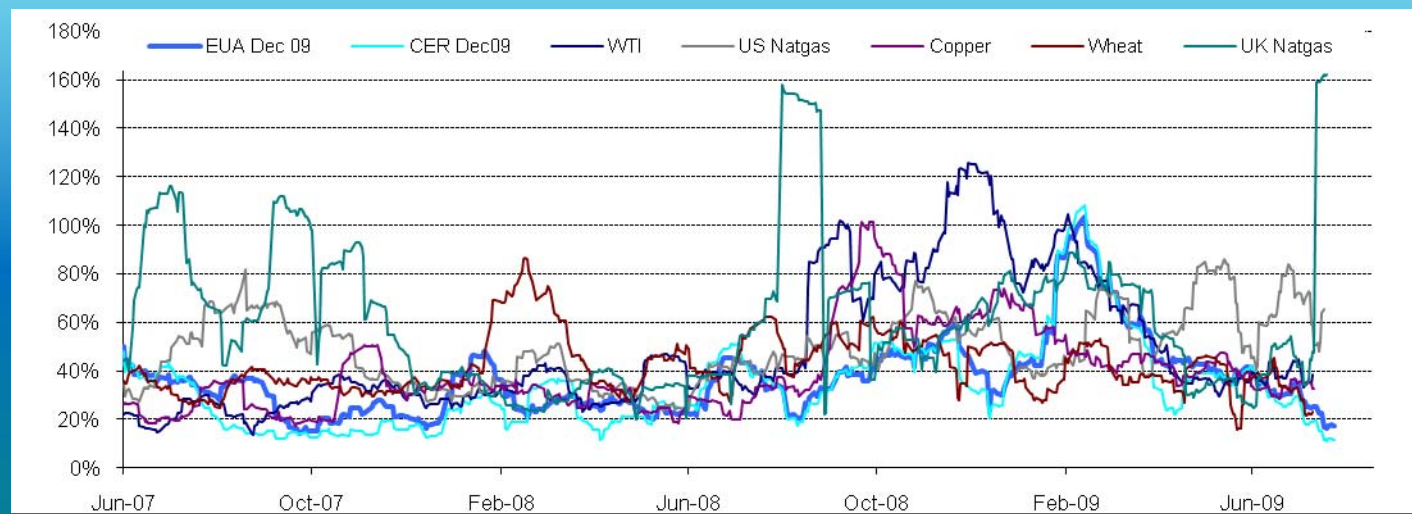
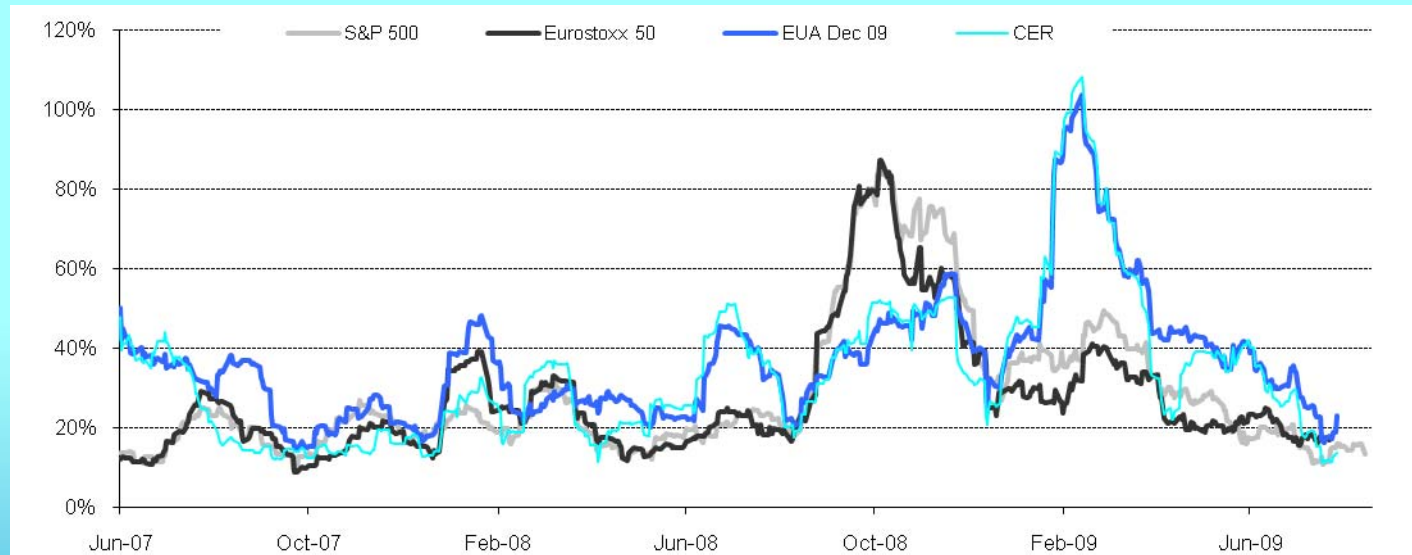
Distribution of the Current CDM Market

(Figures and charts from World Bank and UNEP Risoe)





Volatility?



Source:
Orbeo



The Counter-arguments again

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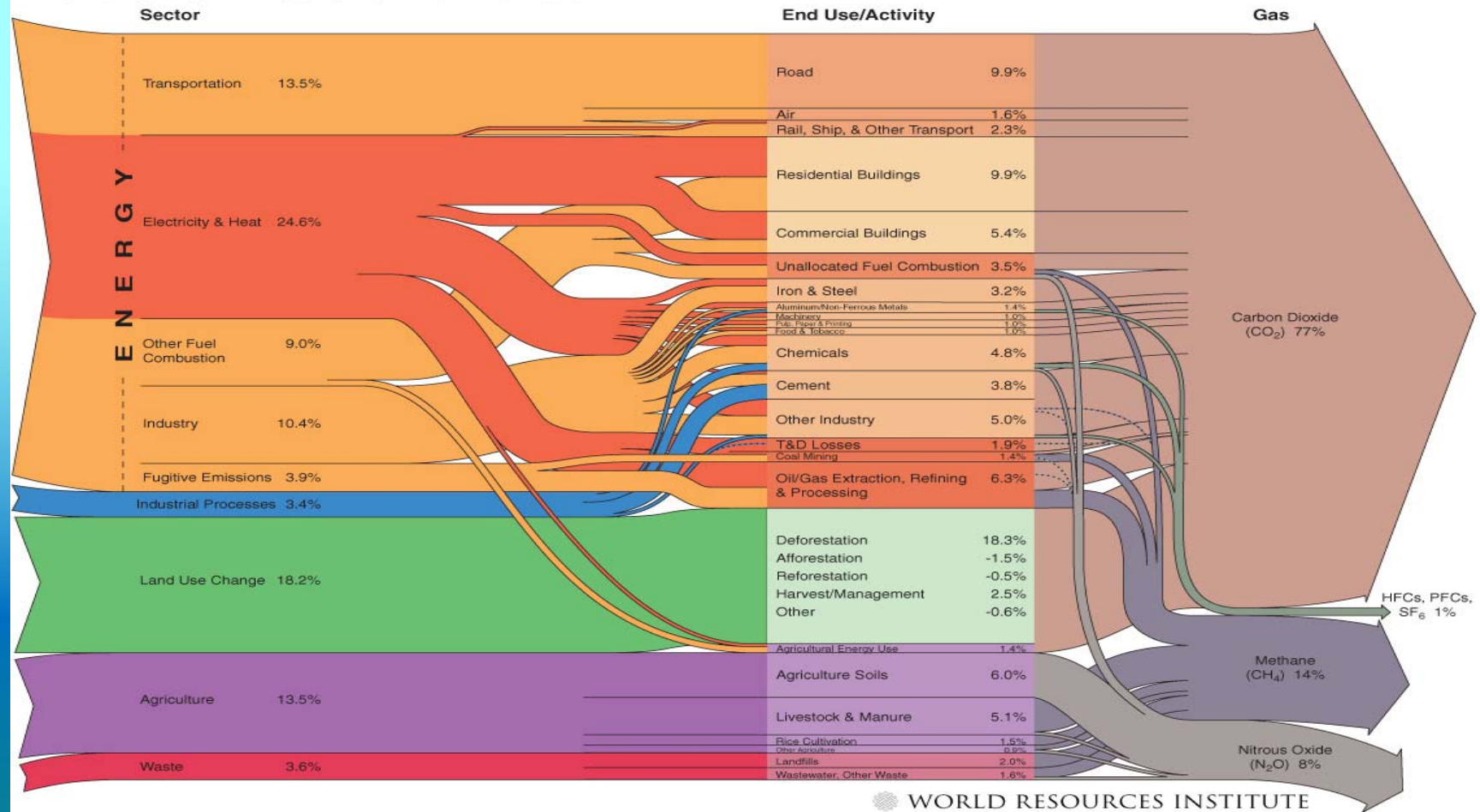
To cap or to tax?

- Carbon taxes will lend predictability to energy prices whereas cap and trade aggravates price volatility
- Carbon taxes can be implemented much sooner than complex cap and trade systems
- Carbon taxes are transparent and easily understandable
- Carbon taxes can be implemented with far less opportunity for manipulation by special interests
- Carbon taxes address emissions of carbon from every sector, and
- Carbon tax revenues would be returned to the public through dividends or progressive tax-shifting.



Complex however you try to control it

World GHG Emissions Flow Chart





To some, the issues are pretty simple, really.....



All great ideas take time



Psychology of change

- Basic cost considerations mean the principle of international trading and offsets is not going away
- Current political gloom is driven by concerns about the economy and realisation that climate action is expensive and disruptive
- Nature is increasingly showing proofs of the urgent need to take action
- Over the lifetime of most carbon-reducing projects, the underlying trends are clear
- The CDM will continue, but suppliers of offset projects must learn to deal with other, non-Kyoto emerging systems as well



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