



Avoiding dangerous climate change: Are the carbon markets up to the job?

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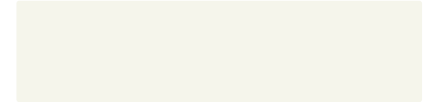
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A quick overview

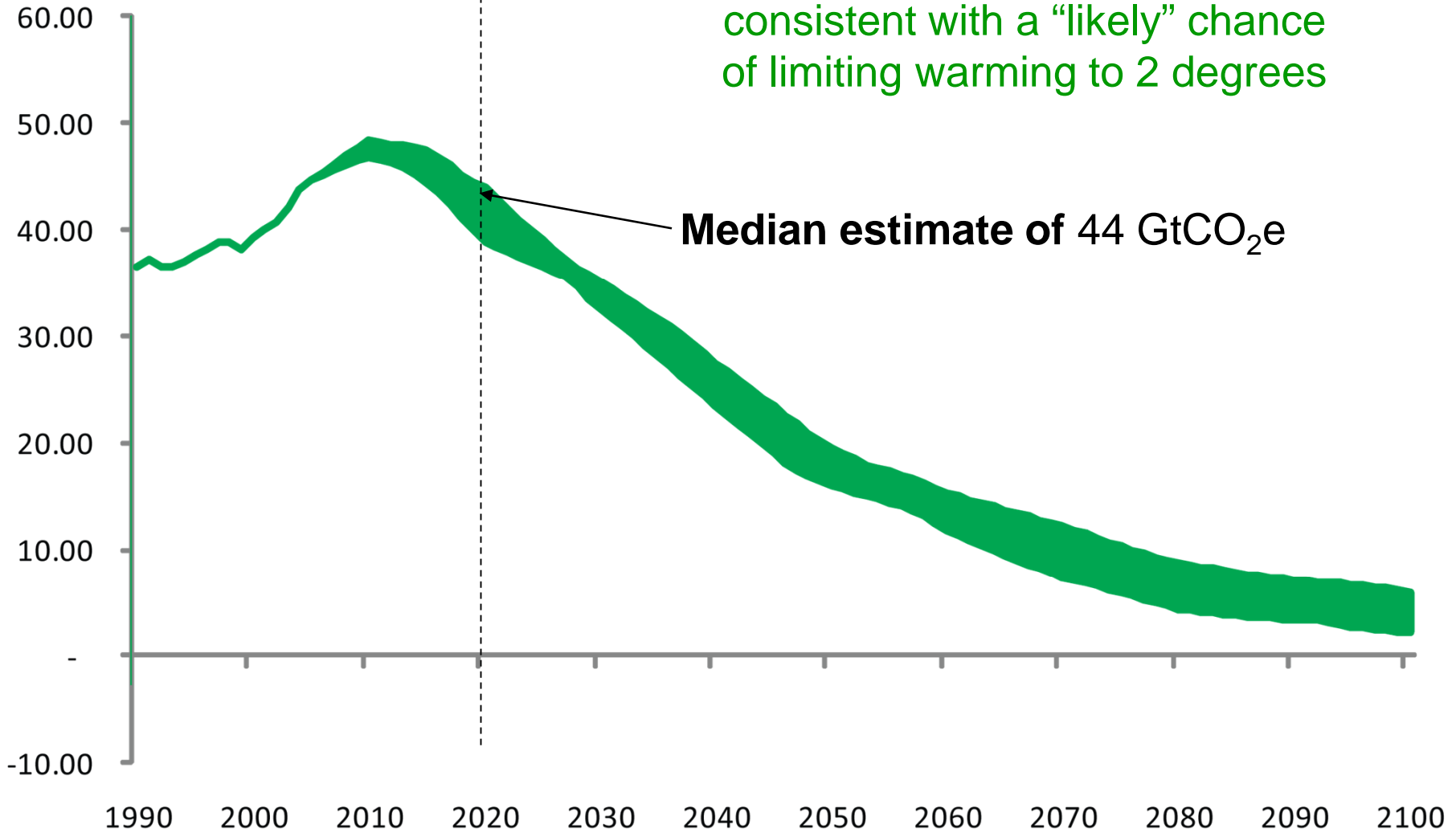
- What do we need to do to avoiding dangerous climate change?
 - The global carbon markets so far – and ideas for evolving them
 - A (very) quick look at the EU Emissions Trading Scheme
 - The role of the carbon market in driving domestic action and investment
 - Some conclusions
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What are we aiming for?

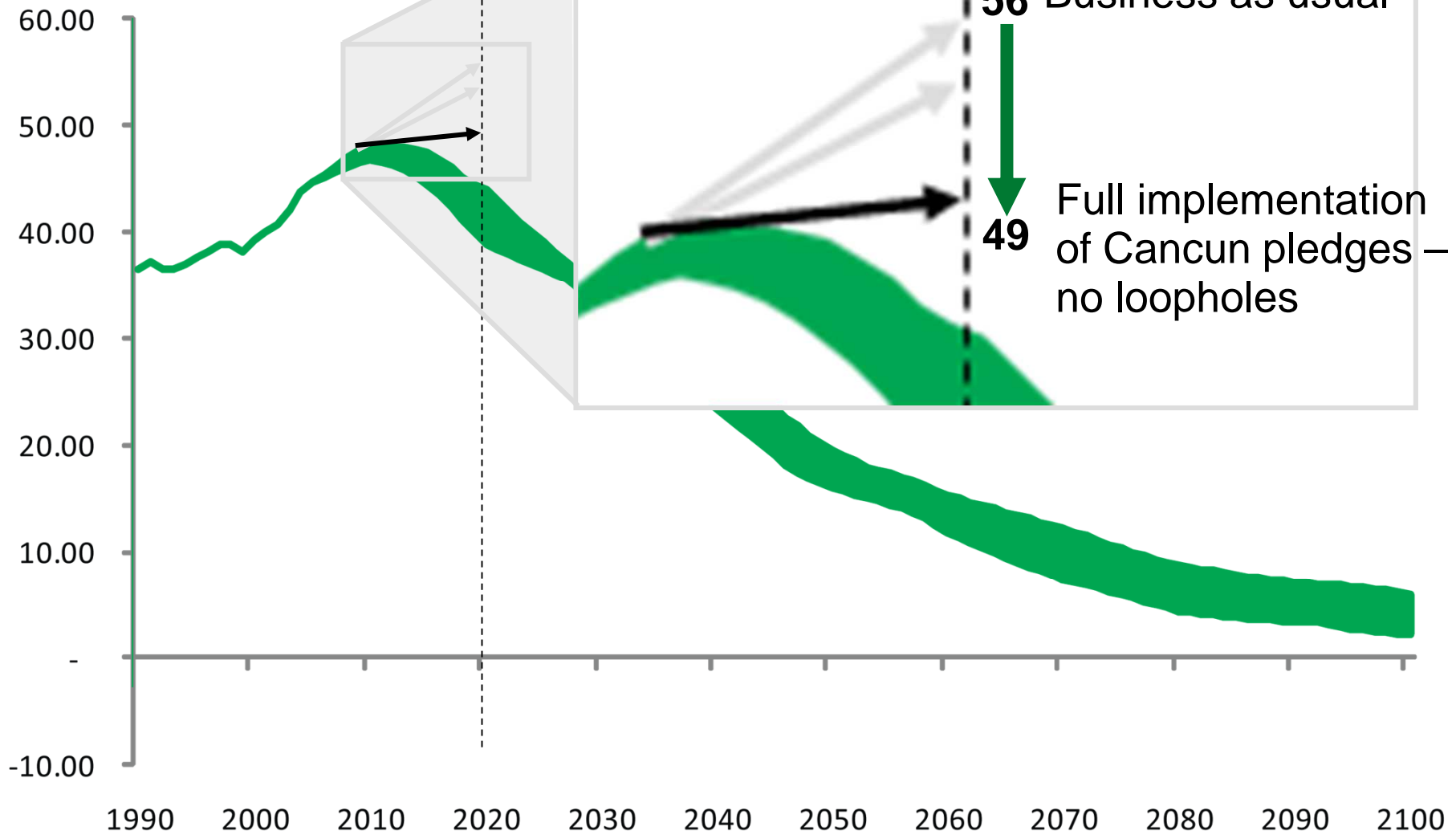


Global emissions, GtCO₂e





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Source: Adapted from *The Emissions Gap report*, UNEP, 2010



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The gigatonne gap – and how to close it

Main problem is weak industrialised country targets (cf IPCC 25-40% range).

With loopholes, rich country emissions could **increase** – before offsets come in!

Close the gap with stronger targets, new pledges, new sectors, new money...

Carbon market issues:

- With weak industrialised country targets, carbon market is stillborn
- Avoid double counting of offset credits (up to 1.3 gigatonnes)
- Significant NON-OFFSET action in developing countries (eg REDD)
- New, additional finance is key – bunkers, financial transaction taxes



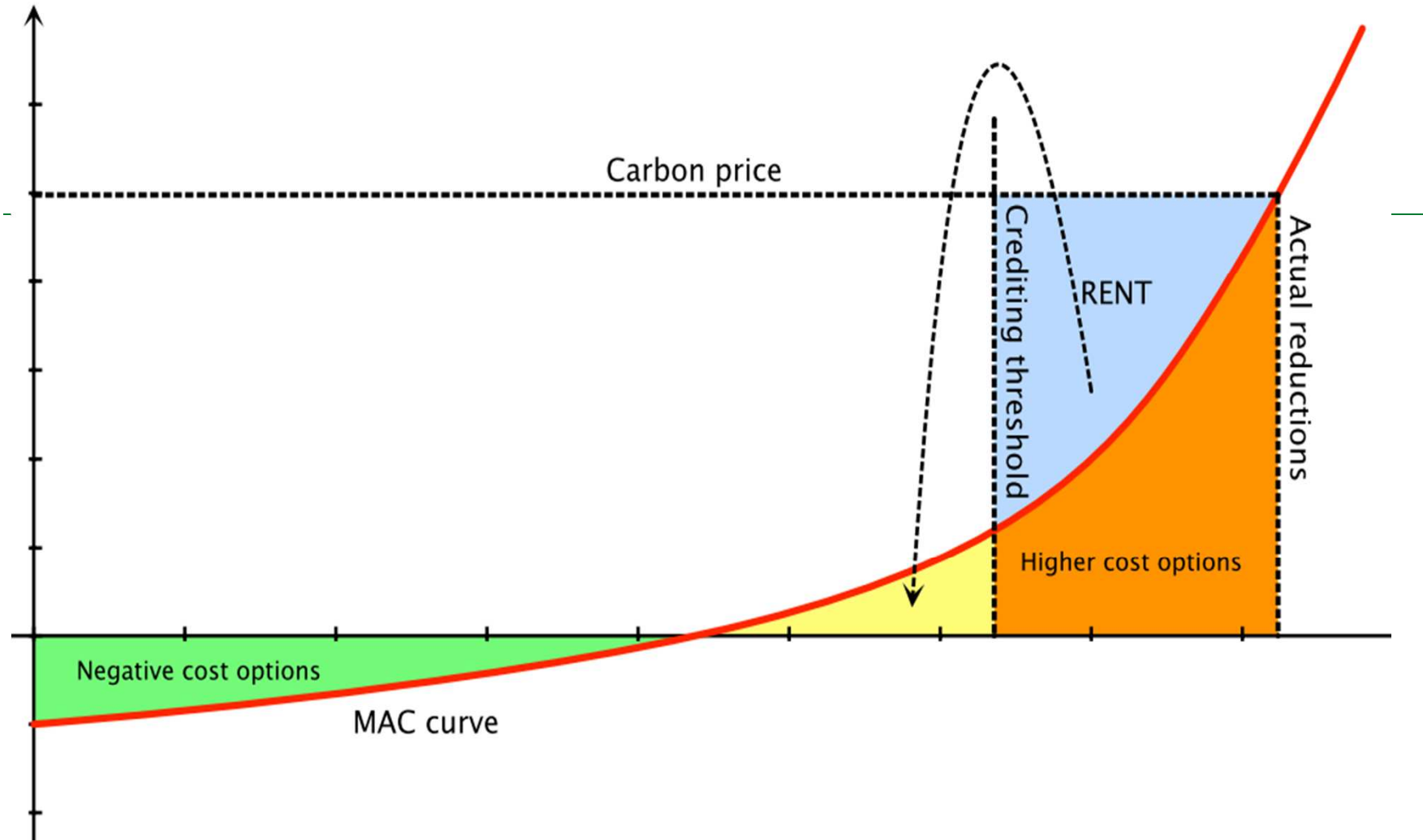
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Beyond the Clean Development Mechanism

- Even in theory CDM is only zero sum game for the climate. In practice...
 - Oko-Institut report for WWF – 20% of credits (and 40% of projects) likely to be non-additional
 - Market domination – China had 72% of CDM market in 2009
 - Market historically dominated by industrial gases – massive windfalls, perverse incentives to produce more GHG
 - Market moving slowly towards energy efficiency and renewables – but issues of double counting and low hanging fruit are becoming increasingly prominent
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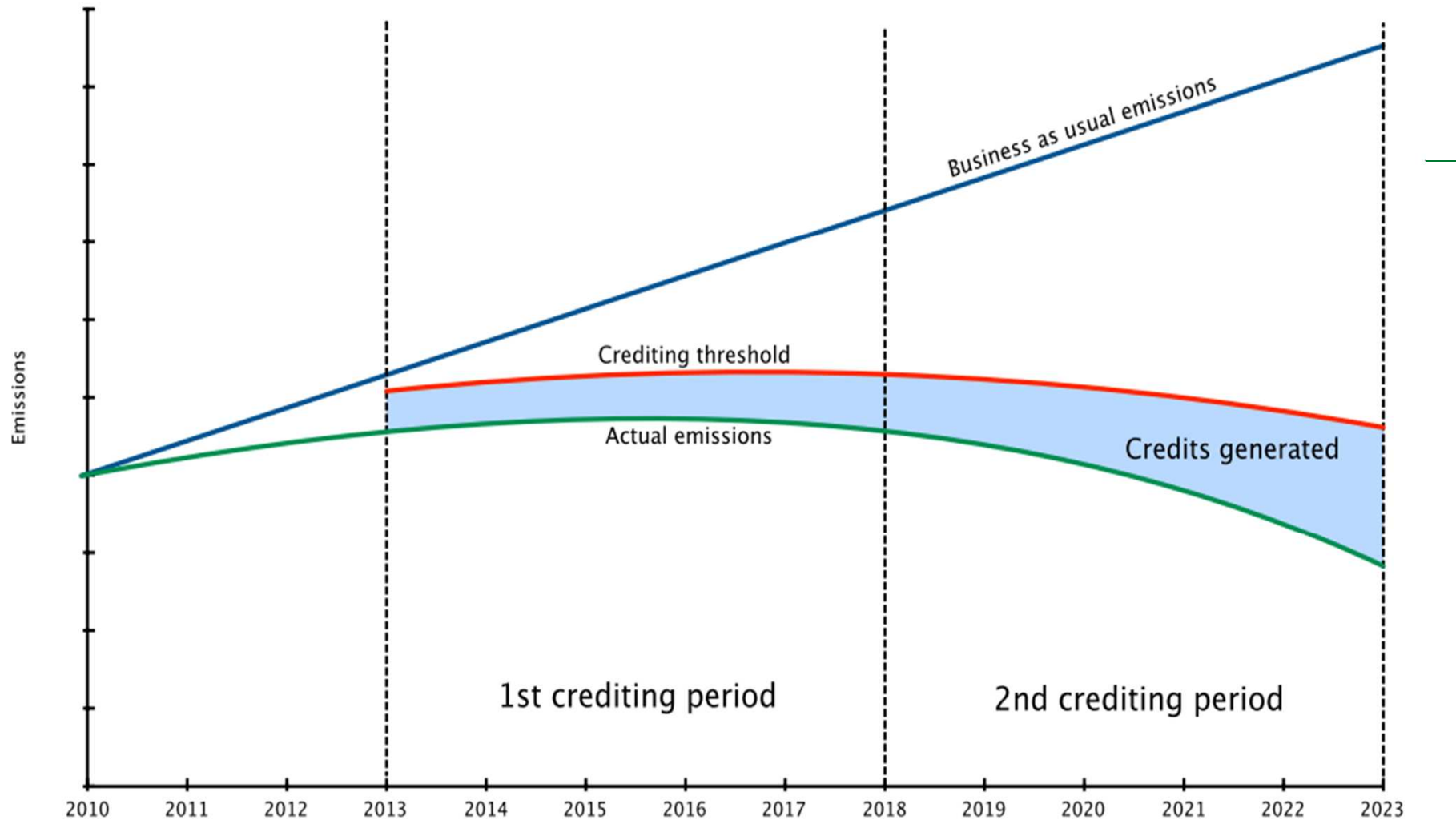


Who owns which emission reduction?





Towards a sectoral approach?





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New approaches – a word of caution

- Sectoral approaches (trading, crediting) *could* offer climate benefits
 - But severe risk of weak baselines, or more hot air:
 - lack of good data
 - very challenging to negotiate – equity, international scrutiny etc
 - inevitable upwards pressure, risk of gaming BAU
 - everyone wants to be a seller!
 - Sometimes old-fashioned regulation works – eg HFCs, efficiency standards
 - Linking of cap and trade schemes – similar inflationary pressures
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The global carbon market – on its knees?

- Weak industrialised targets means low demand for credits, low price, low financial flows for mitigation
- The death of the US Climate Bill is a body blow to the EU's vision of a global carbon market. Where is its new plan B?
- According to European Commission (2009), current Annex 1 targets require an additional Euro 200 billion in public money to compensate
- The bad news – there is little political recognition of this conundrum

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The EU ETS – cap or trap?

- First phase – over-allocation, free allocation, huge windfall profits
- Second phase – marginal improvements, but weak caps and recession has created massive surplus
- Third phase – stockpile of 1.8 billion permits and CDM credits. Tighten the cap – but also drain the swamp!
- Efforts to increase EU ambition blocked by aggressive lobbying from manufacturing sector – “deindustrialise Europe” (Arcelor Mittal has surplus permits worth c Euros 1.4bn)
- A mistake to put the power sector into the same scheme as manufacturing industry?





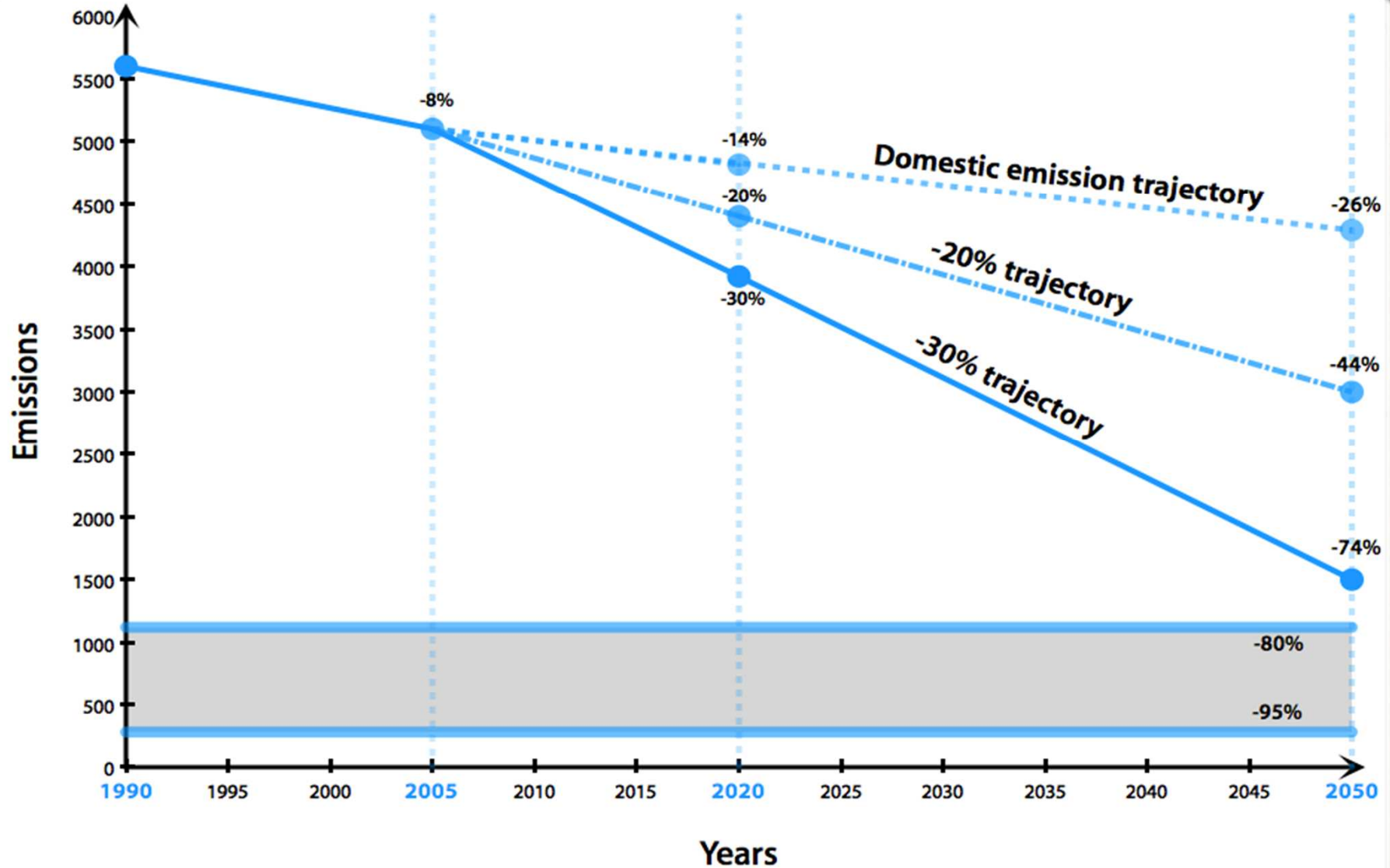
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Getting the EU to move to (at least) 30% is key

- In 2009, EU emissions were 17.3% below 1990 levels. The current 20% target is business as usual – or worse. Surplus allowances and offsets mean domestic emissions could rise substantially
 - Moving to 30% would cost 0.2-0.3% of GDP (European Commission), or even lead to substantial GDP gains (Ecofys)
 - Savings to EU of Euros 14bn per year from avoided oil and gas costs
 - Governments are foregoing revenue of Euros 70bn from 2013-2020
 - Binding efficiency target and policies, and overhaul of EU ETS, are key
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Europe's "back-loaded" approach



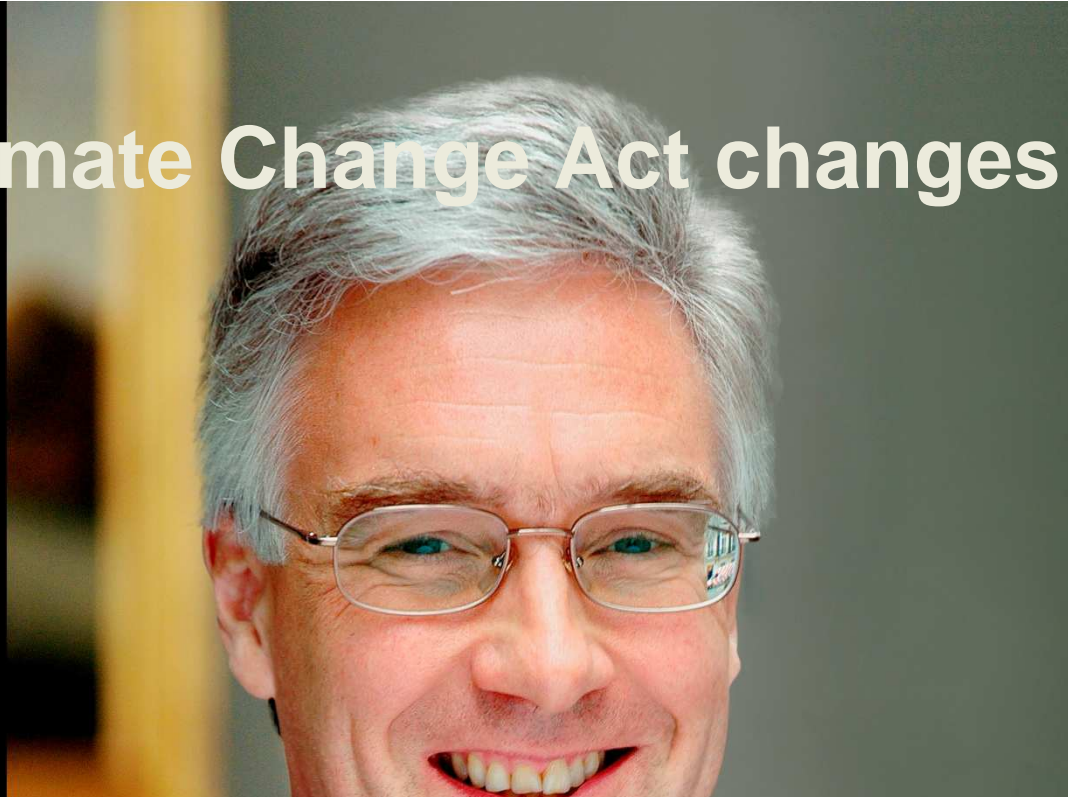


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Turning the focus back to domestic delivery

- Cancun agreement introduced commitment to “low emission development strategies”. Vague – but potentially important
 - Many developing countries are already well-advanced – Mexico, South Africa
 - The UK Climate Change Act – a model for developed countries:
 - at least 80% cuts by 2050
 - DOMESTIC 60% reductions by 2030 “as a bare minimum”
 - Europe is also looking increasingly at the transition rather than the market – climate and energy roadmaps to 2050
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UK Climate Change Act changes the game



“Any feasible path to a 80% reduction by 2050 will require the almost total decarbonisation of electricity generation by 2030”

“There is a strong case for buttressing the carbon price lever by establishing a clear and publicly stated expectation that coal-fired power stations will not be able to generate unabated beyond the early 2020s”



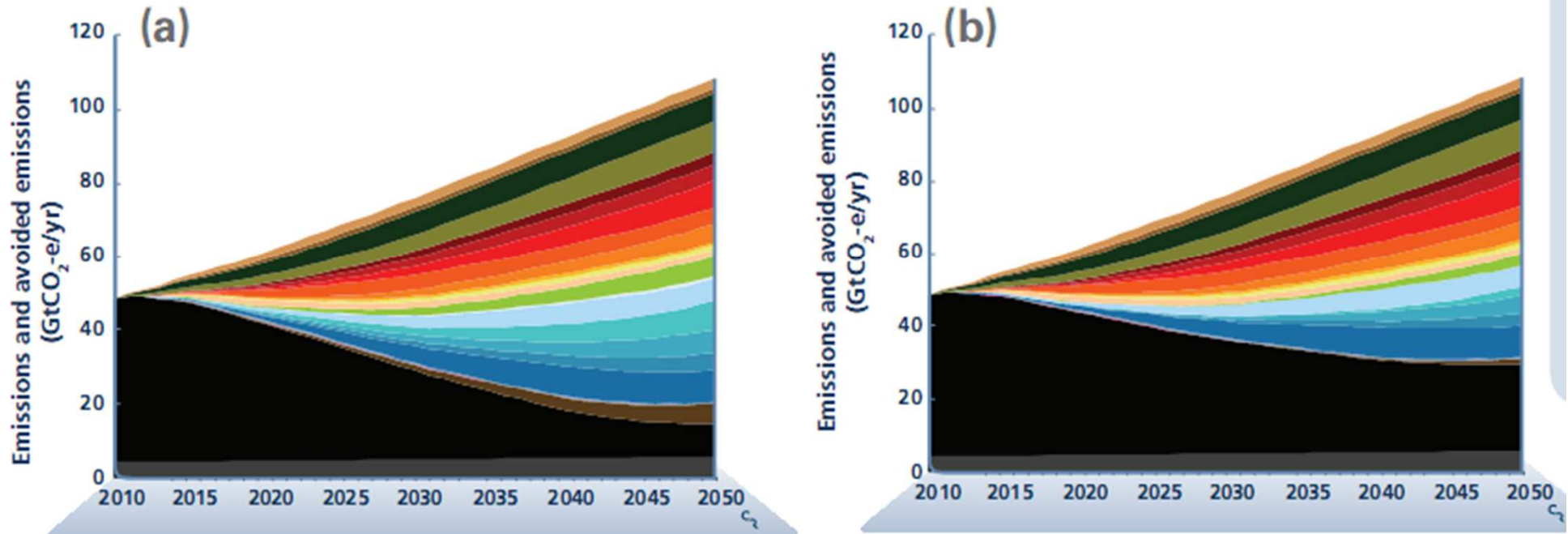
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The UK power sector – a case study

- Only three years ago, a new generation of unabated coal stations was being planned in the UK. Kingsnorth led the way...
- Debate now is how, and how fast, to decarbonise the energy system. 2030? Renewables? Nuclear? CCS? Demand reduction? Electric vehicles and heat?
- The ETS is notable by its absence! Instead plans for carbon floor price, emissions performance standard, feed-in tariffs, Green Investment Bank...
- Is this “double regulation” that fails to reduce EU emissions? Wrong question!



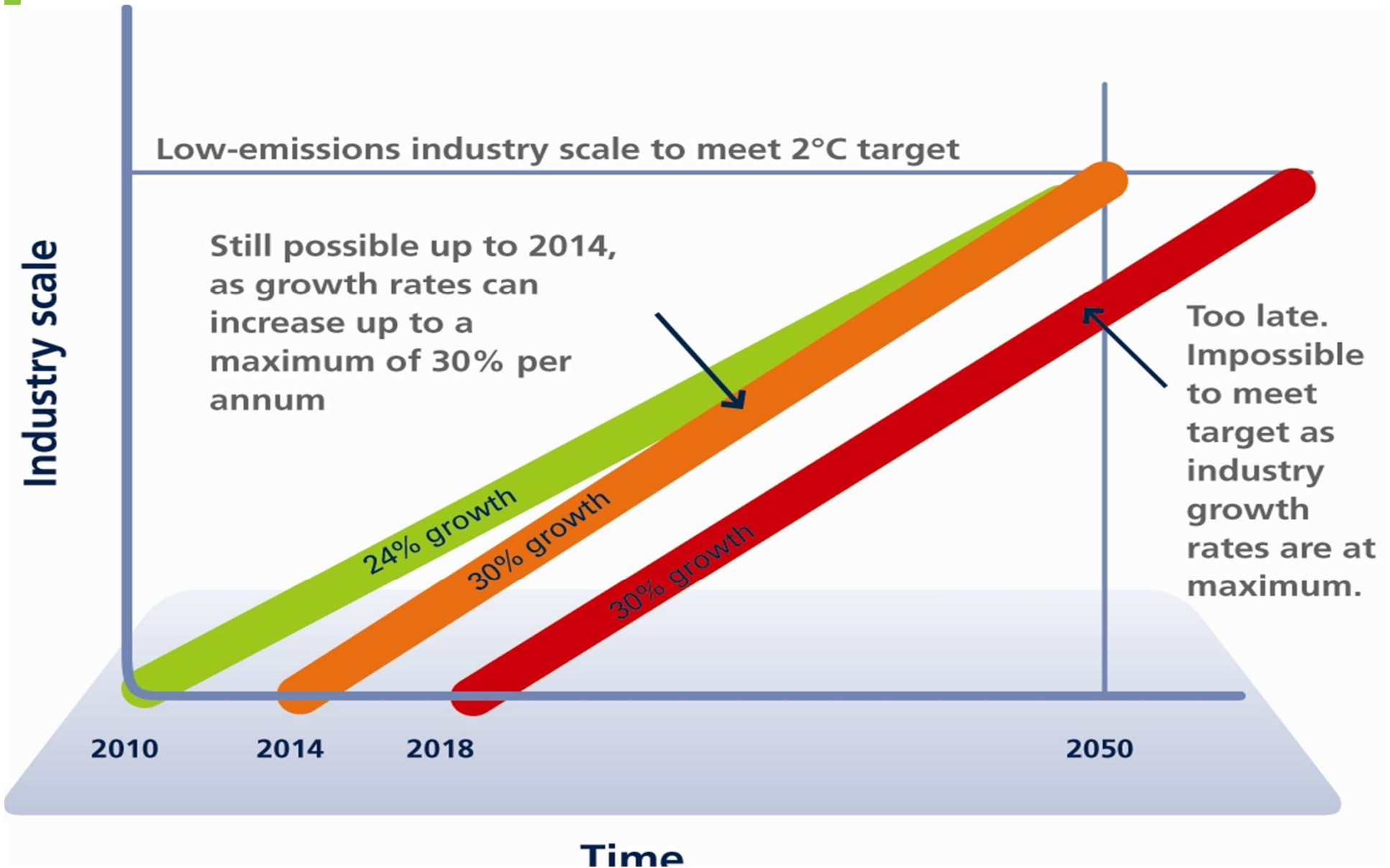
We need simultaneous development of solution wedges



Simultaneous (L) vs. sequential (R) technological development has a heavy impact on modeled mitigation success

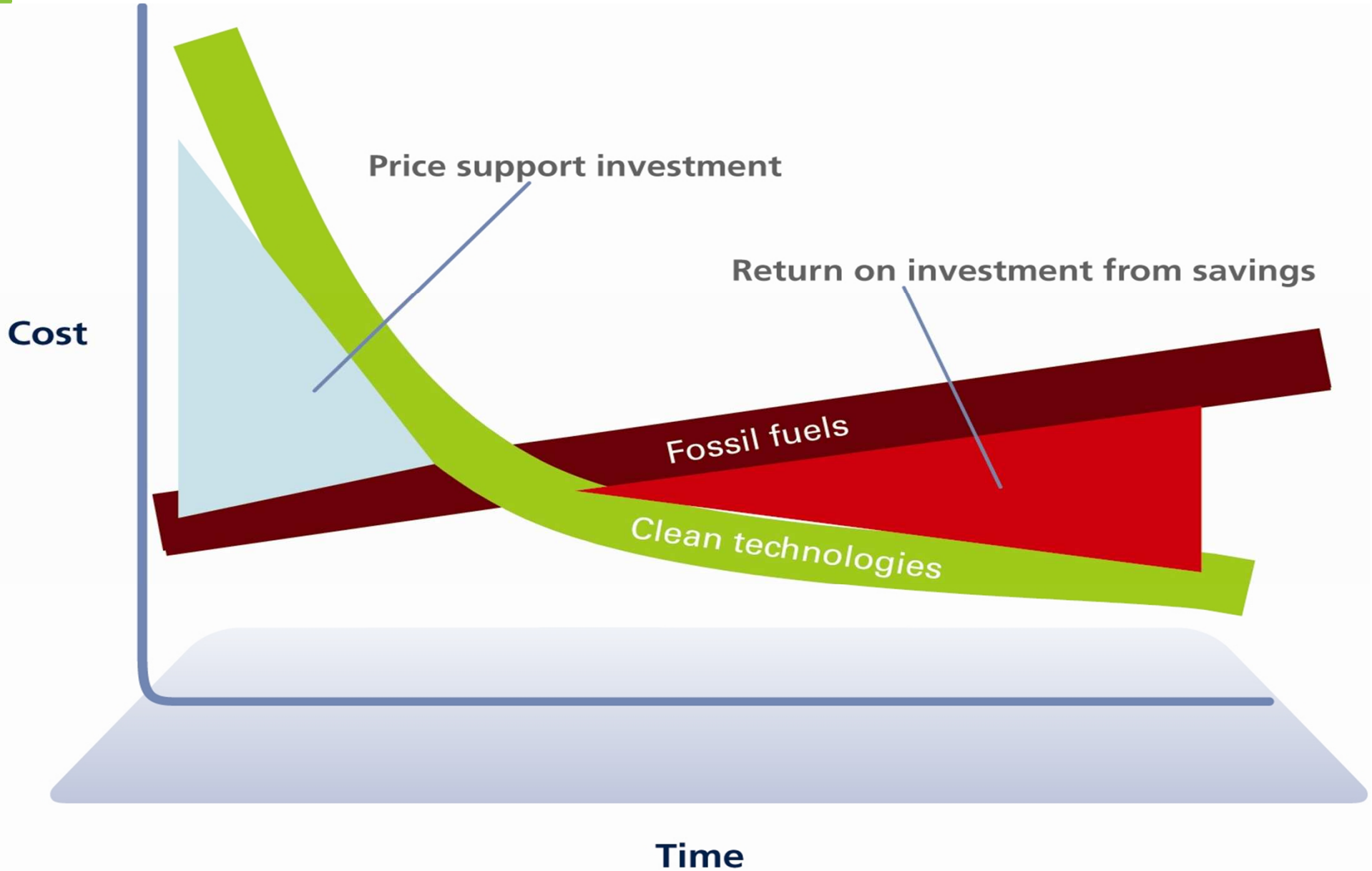


We need to start now!





Cleaner, cheaper – but when?





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A clean energy future

- A safe climate future – based on 100% renewable energy – is achievable and affordable
 - A carbon price will help – but a low marginal price now will lead to high carbon lock-in and bad decisions. Carbon markets can be a (small?) part of the solution
 - The real solutions lie in complex issues – green infrastructure, technology, building retrofits, behaviour change, land use and governance, financing
 - The big challenge is mobilising CAPITAL – £450 billion in UK alone by 2025. Global investment in clean energy – Euros 1-3 trillion per year
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The Energy Report

100% Renewable Energy by 2050

A VISION

A world powered by 100% renewable, sustainable energy by mid-century

A SCENARIO

Extensive electrification of transport; enhanced energy conservation; smart grids; sustainable energy for all

CHALLENGES

Conserving energy & reducing demand; electrification; equity; investment; land/water/sea-use implications; governance; lifestyle choices - behaviour changes & public attitudes; innovation and R&D

SOLUTIONS

In all of our hands - policy-makers, investors, corporate leaders, communities and individuals.

BENEFITS

Stop fossil fuel pollution; save money; address climate change; improve health; no nuclear risks; new jobs; innovation; protect nature

