

The carbon market post-2012

Extracts from recent Carbon Market Analyst reports, by Point Carbon:
"What are fair prices post-2012?" and "Moving towards a Kyoto successor"
both published July 2, 2009

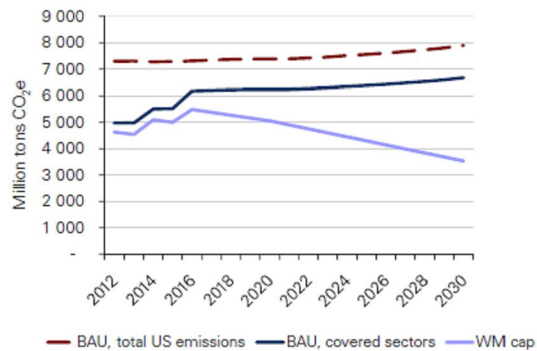
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September 2009

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Waxman-Markey (WM)



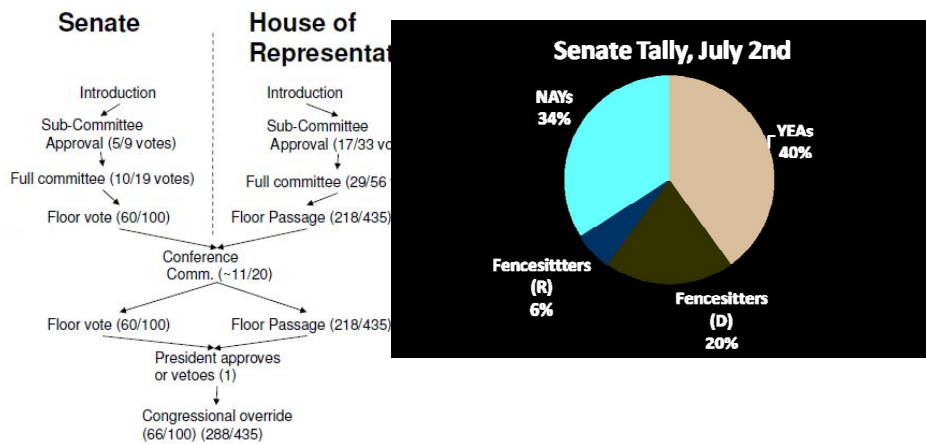
- Provisions for cap-and-trade and renewable energy
- Cap-and-trade coverage: 85 %
- Reductions: 20% compared to 2005 (17% for ETS)

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WM survival rate: Little more than 50%



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If WM , then Copenhagen

- Implementing agreement not needing 2/3 in the US Senate
- Targets, somewhat expanded Annex B
- Supermarket of trading mechanisms
 - Tradeable country targets
 - JI and CDM
 - Sector crediting (no-lose sector targets)
 - Firm sector targets
 - Crediting of NAMAs
 - REDD+
- Financing by voluntary pledges
- No compliance regime

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Pledges, indicative targets and outcomes

	Pledge	Assumed outcome
US	Waxman-Markey: Total GHG emissions should be reduced by 20% compared to 2005 (17% for US ETS)	-7 %
EU	20% reduction from 1990, going to 30% if there is an international agreement	-30 %
Norway	30 % reduction compared to 1990	-30 %
Switzerland	20 to 30% reduction compared to 1990	-30 %
Iceland	15% reduction compared to 1990	-20 %
Japan	8% reduction compared to 1990	-15 %
Canada	20 % reduction from 2006	-7 %
Australia	5% reduction from 2000, going to 25% if there is an international agreement	-15 %
Russia	10-15 % compared to 1990	-15 %
Ukraine	20 % compared to 1990	-20 %
Turkey		80 %
Kazakhstan		-15 %
Belarus	5-10% compared to 1990	-15 %
Serbia		-27 %
Croatia		17 %

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The demand side

- Five countries are the main sources for demand for internationally traded carbon (USA, EU, Canada, Japan, Australia)
- Aggregated demand for reductions 2013-2020 for these five
 - Gap to cap: approx. 18 Gt
 - 6 Gt by governments
 - 12 Gt by ETS participants
- CDM and JI "as we know it": 6-7 Gt to 2020

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Tentative carbon balance, 2013-2020, Gt

	ETS participants	Governments	Total
Total demand for reductions	12	6	18
Domestic reductions	5	2	7
Total non-Annex 1 reductions	7	4	11
Single projects	5.5	0.5	6
REDD	0	0.5	0.5
No-lose sectors	0	2	2
ETS	0.5	0	0.5
NAMAs	1	1	2

- REDD and sector crediting will largely be a government game
- New ETSS, NAMA crediting, CDM/JI for private participants
- Significant domestic reductions

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Implicit market structure

- 2012-2014 could become a period with limited demand and low supply, before the systems are set
- The supply side might look very different from today and is highly dependent on political decisions, less on prices
- The ETSS in Annex I likely to be the price setting mechanism on a daily basis

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Implications for JI (and CDM)

- If Waxman-Markey: plenty of demand for credits
- Strong competition from other mechanism
- Two key factors
 - Additionality
 - Attractiveness for ETS participants

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