# Asia and Pacific Regional Workshop: Promoting CDM and Market Mechanisms

### Strategic Approaches for Linking Emission Trading Systems in Asia and the Pacific

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#### **Outline**

- 1. Background
- 2. Requirements for establishing bilateral/multilateral linking
- 3. Prospect of linking emission trading systems in Asia and the Pacific
- 4. The way forward for linking ETSs in Asia and the Pacific



#### **Background**

- Evolution of global carbon market
- Emission trading systems are emerging in Asia and Pacific
- International climate negotiation context





#### **Evolution of the Global Carbon Market**

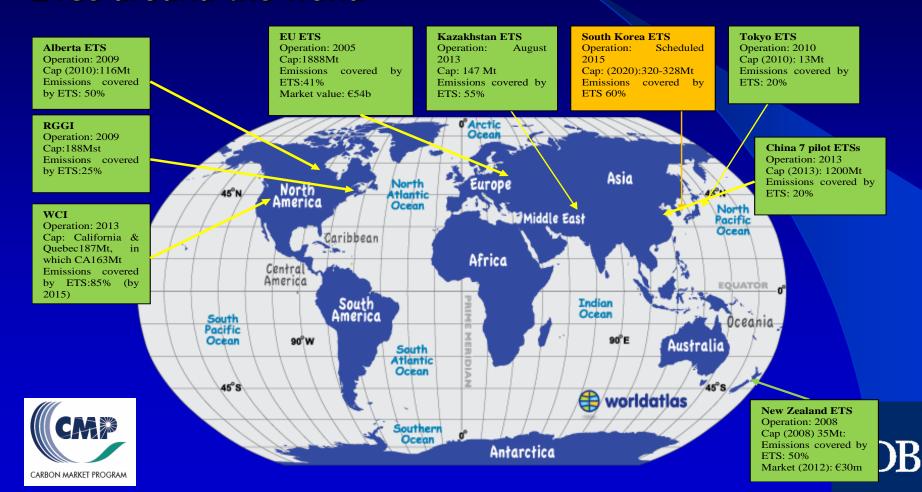
- Over supply
- Continuing low carbon price
- Emerging national and sub-national emission trading schemes
- Diversified system design in aligning with national circumstance with mechanism of adjustment and policy intervention
- National and regional trading schemes starting to link up





#### **Evolution of the Global Carbon Market**

There are about 15 key regional, national and sub-national ETSs around the world



### **Emergence of Emission Trading Systems in Asia and the Pacific**

- New Zealand ETS: operation in 2008
- Kazakhstan ETS: operation in August 2013
- South Korea ETS: Scheduled to operate in 2015
- Five countries of DMCs are implementing participants of Partnerships for Market Readiness(PMR) supported by WB:
  - China: 7 pilot ETSs operated since 2013,
     national –wide ETS starting to operate after 2015



Vietnam, Thailand, Indonesia and India are working on their carbon pricing proposals



### International Climate Negotiation Context

A global climate protocol with legal bidding force to be adopted in 2015 and come into force after 2020 will establish:

- A legal foundation of future global carbon market
- Comparable national emission reduction efforts/ targets beyond 2020 -constitute the most important foundation on stringency of cap for bottom-up linking ETSs across countries



# Requirements for Bilateral/Multilateral Linking

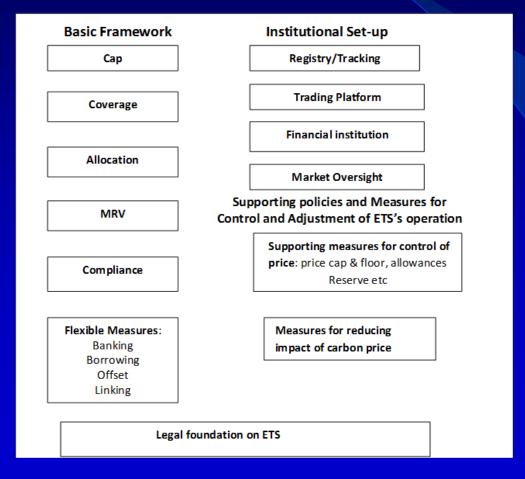
- Framework and objective of ETS design
- Requirement for linking





# Framework and Objectives of ETS Design

Basic framework of ETS and necessary conditions for establishment and operation of ETS





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# Framework and Objectives of ETS Design

#### **Objectives of ETS Design**

- Cost Effectiveness
- Environment Integrity
- Flexibility
- Efficiency





# Requirements for Bilateral/Multilateral Linking

Requirements	for	Linking
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Common Design Features

Essential

Desirable

Type of Cap: Absolute or Relative

Emissions Scope / Sectoral Coverage

Stringency of Cap

Regulation Point (Upstream/Downstream)

MRV Standards and Process

Measurement Unit

Enforcement

Allocation Methodology

Offset Eligibility

**Compliance Period** 

Borrowing

Banking

Price Caps

Registry

Political and Legal Framework

**Political Willingness** 

Legal Framework

Linking Provision in the ETS Regulation

Linking Agreement: Bilateral or Multilateral



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### Prospect of Linking ETSs in Asia and the Pacific

- Prospect
- Challenges

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#### **Prospect**

- Benefits of linking
  - Maximizing economic efficiency of ETSs
  - Minimizing market risk
  - Catalyzing the creation of global carbon market
  - Building a market-based model for regional cooperation on addressing climate change
- Comparable mitigation target beyond 2020
- Close trading relationships
- Positive governments' attitudes to linking



#### **Challenges**

- Different design features between systems
  - Adopt different types of caps
  - Different Stringency of cap
  - Different compliance framework
  - Different eligibility of offset credits
  - Different cost containment measures
- Different governments' expectation on linking
- Different capacity for implementation of system





#### **The Way Forward**

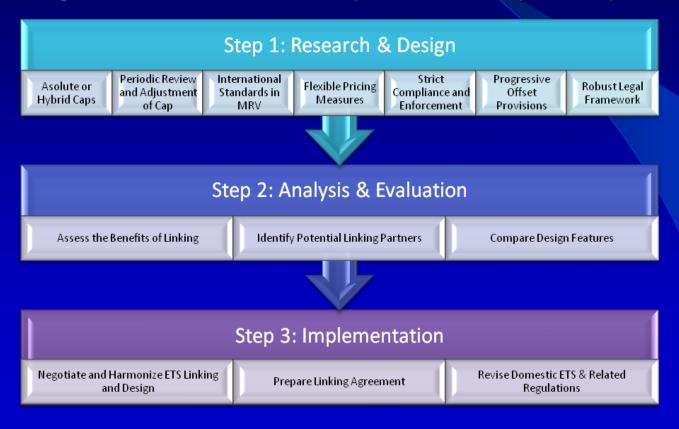
- Strategic approaches to harmonisation and linking of Systems
- Roadmap





# Strategic Approaches to Harmonisation and Linking of Systems

Linking needs to be developed in a stepwise process







### Strategic Approaches to Harmonisation and Linking of Systems

### Step 1: Research & Design - Build a Foundation for Linking Early in the Design Process

- Set stringent cap: Absolute cap or hybrid cap and Periodic Review and Adjustment of Cap
- International Standards in MRV
- Progressive Offset Mechanisms
- Flexible and Progressive Cost Containment Measures
- Strict Compliance and Enforcement Provisions
- Robust legal framework



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### Strategic approaches to harmonisation and linking of systems

### Step 2: Analysis and Evaluation - Assessing the Linking Opportunity

- Assess the Benefits of Linking
- Identify potential linking partners
- Compare Design Features



### Strategic approaches to harmonisation and linking of systems

### Step 3: Implementation — Establishing a Linking Framework

- Negotiate and Harmonize ETS Linking and Design
- Prepare Linking Agreement
- Revise Domestic ETS and Related Regulations





# Progressive Development and Linkage of Emissions Trading Systems

Step 1. Starting with establishing linkage between domestic pilot ETSs/ between domestic existing carbon trading related instruments

Step 2: Building linkage between pilot ETSs and national wide ETS

Step 3: Establishing inter-linked ETSs across countries

Step 4: Integrating regional linked ETSs into global market

Pilots







# Thank you! Imo@cmp-adb.org



