

Key Emissions Trading Issues for Japan 13 May 2010

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What is the purpose of a cap and trade system?

Five unavoidable truths

1. The purpose is to deliver a proportion of a national absolute emissions reduction target, at least economic cost
2. An entirely intensity-based national system cannot deliver an absolute target - but elements of the national climate policy can be intensity based if other elements compensate
3. Taking an absolute target implies subordinating the achievement of economic growth to a climate goal, in order to allow economic growth to continue in the future - but flexible implementation of the target can minimise the impact on growth
4. Carbon has never been paid for in the past, and now must be. This inevitably causes some economic dislocation
5. Cost increases hurt, and by doing so motivate change. The system is intended to change outputs, not reflect them



What can the EU-ETS teach Japan?

Michael Grubb's 11 lessons

- Trading works
- Everyone will learn
- Prices can be volatile
- GDP impacts are small
- Industry can profit
- Competitiveness impacts are small
- Free allocation produces windfalls
- Free allocation produces inefficiencies
- Auctioning is best
- Border adjustments cause problems
- An international binding target is an essential driver



EUETS Impacts on Investment

- Investment is not necessarily the right thing to do (first, or when economic conditions are bad)
- Phases 1 and 2 were too short to affect investment much
- Phase 3 is better, but most investment would only be justified by increasing prices beyond 2020 – uncertainty remains
- Difficult to disaggregate price impact from regulatory or expected regulatory impact
- Low carbon investment is increasing
- A price of carbon will always improve investment case



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