

# Putting the emerging global carbon market on a solid footing

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## **Introductory remarks**

Ladies and Gentlemen,

It is a pleasure for the European Commission to host this Global Carbon Market Forum - the first conference to be held under the auspices of the International Carbon Action Partnership.

On behalf of President Barroso and Commissioner Dimas, I am delighted to welcome you all to Brussels. We have an impressive line-up of expert speakers, who have lent their time and expertise to support ICAP's work and this first public conference.

Here today, we have stakeholders from over 25 countries around the world- countries that share the

objective which originally brought together the founding members of the International Carbon Action Partnership in Lisbon last year – namely to develop a robust global carbon market. The global carbon market needs to be based on sound national and regional systems, now being designed and implemented by you and your colleagues around the world. We are building the global carbon market from the bottom-up. The aim of ICAP, including through this and future global carbon market fora, is to ensure that we succeed in building a solid global carbon market. I am delighted to welcome colleagues from ICAP partners worldwide, and I would like to extend a special welcome to colleagues from Australia which has recently joined ICAP as a full member.

A few years ago, when the European Commission first put the idea of introducing a continent-wide carbon market on the table and started developing carbon market rules in European legislation, we were the first movers and had to charter new territory. We

appreciate the challenge this represents for others setting off down this path. This was as much a challenge as an opportunity. At that stage, the US Environmental Protection Agency's expertise in pioneering successful markets for air pollutants—something they achieved almost two decades ago—was a useful source of inspiration and learning to us. I am delighted to welcome colleagues from US EPA who will share with us their experience in monitoring, reporting and verification issues later today and tomorrow. As we all move forward at different paces in different sectors, we must continue to learn from each other.

## **The carbon market in the post-2012 context**

While we have learned plenty of valuable lessons from air pollutant markets, we also now know that the carbon market is very different from any other environmental market developed before. The European carbon market has after only a few years of operation created a multi-billion Euro or dollar

market. The recognition of international offsets produced under the Clean Development Mechanism (CDM) has triggered a substantial flow of investment and technology to developing countries and delivers important capacity building benefits in these countries. And carbon market conferences bring together hundreds if not thousands of participants.

But we are only at the start of the gradual emergence of a global carbon market. I am heartened to see that our leading-by-doing and the headway we made in developing a robust carbon market is inspiring an increasing number of countries and regions. It is remarkable to witness countries that have expressed scepticism about the Kyoto Protocol and refused for a long time to ratify the agreement are now set on joining the momentum and recognise the carbon market as a solid foundation for a public policy response to combat climate change.

It is even more heartening to follow the active carbon market debate developing in the United States among stakeholders, in individual states and in Congress. As the first regional US carbon market will start

operation next year, the prospect of a US-wide carbon market based on solid federal legislation is rising ever more prominently on the horizon. Very soon the issue of building a transatlantic carbon market will be on the top of our agendas.

Whilst the focus on the design and implementation of carbon markets features ever more prominently in climate policy, around the world eyes are turning to Copenhagen and 2009. The post-2012 climate framework, which the international community is committed to agree by the end of next year in Copenhagen, will define the international *political* framework for the evolution of the global carbon market at least for the next decade. We can expect this to set the level of ambition for collective international action and individual domestic action - with economy-wide targets for emissions cuts from developed countries, as well as some mechanisms to incentivise and finance mitigation and adaptation action in developing economies. However, we will all need to back our commitments with successful, cost-effective domestic policy measures that deliver

greenhouse gas emissions reductions. And we will need to ensure that both public and private finance flows into the low-carbon technologies needed in the energy and other sectors both at home and world-wide. A robust price on carbon through national, regional and increasingly the global carbon market have a crucial role to play.

However, in large part, the concrete regulatory framework for the emerging global carbon market will be defined in domestic legislation, designed to live up to international challenges and commitments, as we and other ICAP partners are busy doing.

### **Three pillars of the carbon market**

As we move towards the post-2012 carbon market, we will see mandatory cap and trade markets operating beyond Europe.

I expect that the global carbon market will operate on three pillars – the European pillar will be complemented by a North American and an Asian

Pacific pillar. The North American pillar, in particular with a US-wide federal carbon market, will be as big in size as the European pillar, if not bigger. The Asian Pacific pillar made up by Australia, New Zealand and possibly Japan will also be significant.

### **A fourth, emerging pillar**

We need to engage major emitting developing countries in reducing the emissions intensity of their growth and, ultimately in the medium term, to capping their emissions. This should also involve designing and implementing robust carbon markets, following the lead of ICAP partners to create a truly global carbon market, to make it a sustainable instrument that is delivering emission reductions cost-effectively for the benefit of the environment and mankind globally.

While we cannot expect or even ask China or India, for example, to introduce a cap-and-trade system in the very near future, the carbon market has already been a major step forward in engaging these

countries in efforts to control greenhouse gas emissions.

The Clean Development Mechanism (CDM) as the last-minute innovation in the Kyoto negotiations and the economic incentives it creates has started to seriously engage developing countries.

The recognition of CDM credits for compliance in the European carbon market has triggered a wave of CDM projects.

We are aware that there are doubts about the value and integrity of some CDM projects. Europe shares many concerns and has therefore recognised CDM credits with both qualitative and quantitative strings attached. Clearly the CDM as a project-based, offsetting mechanism is in a way a second-best solution. But it is a useful first step and one of the few politically viable ways to engage developing countries in increased action to reduce emissions and is therefore an opportunity to be seized and built upon. At the same time we need to review the CDM rulebook and work towards a better CDM, that delivers greater emissions reductions. And we need to

help developing countries build institutional capacities to enable them to design and implement robust carbon markets.

## **The role of ICAP**

The International Carbon Action Partnership has an important role to play in the evolution towards a broad and liquid global carbon market. As you know, ICAP is an open forum for public authorities to tackle technical issues *en route* to a global market. Rome was not built in a day, and similarly the global carbon market- a major new commodity market- will take some time to become fully established.

The European Commission warmly welcomes the fact that carbon market pioneers have joined forces to create this forum to discuss essential technical issues, to guarantee the success of the growing global market. And it is proud to host the first public conference, to cast the net wider and engage stakeholders with a similar commitment to a robust global carbon market.

## **Importance of monitoring, reporting and verification issues – proactively addressing the devil in the details**

Ladies and Gentlemen,

To the un-initiated, monitoring, reporting, verification, compliance and enforcement rules, the subject of discussions today and tomorrow, may seem to be a boring technical issue. To those experienced in carbon market operations, these are essential issues - the backbone of a successful market, without which everything can fall apart. We have seen the impact of failures in other markets, where failure to comply with accounting rules undermined even major market players.

The rules governing monitoring, reporting, verification, compliance and enforcement are the essential infrastructure that needs to form part of any carbon market from the very beginning. That is why ICAP members have decided to focus this first discussion on these issues.

It is an area where attention to detail really pays off: Faith in the market depends on transparency, accountability and integrity. We come from different compliance cultures, with different regulatory traditions and administrative structures. This is the opportunity to build common principles, based on experience to date, on criteria such as accuracy, completeness and comparability, which will be essential for the compatibility of our different systems. If we do our job right, generating lasting trust amongst market actors, these issues will disappear into the normal background operations of a well functioning - hopefully global - market.

I do believe that by tomorrow evening we will have substantially deepened our understanding of the importance of these rules and will have thoroughly taken stock of how best to write them so as to facilitate mutual trust and to assure they will never move from the background to take center stage or cause disruption.

Before I close I would like however, to congratulate our morning chair, Teresa Ribera, for her recent

appointment as State Secretary for Climate Change, of Spain. Teresa is a very experienced and skilled colleague and I very much look forward to continuing our work together in her new role. I also want to thank Teresa for her outstanding dedication to the carbon market demonstrated over the years. The best example of her commitment to a global carbon market is the fact that she has decided to spend her birthday with us today to serve as chair at our conference. I therefore close with a "Happy Birthday, Teresa" and look forward to an interesting and productive conference.

Thank you for your attention and I wish you a very enjoyable couple of days' discussion.

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