

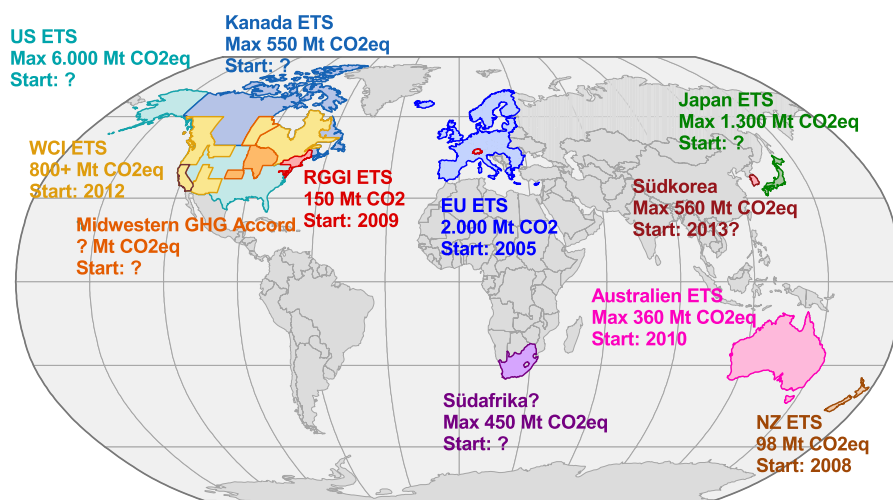
# Linking of trading schemes and the challenge of price management

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14TH INTERNAL MEETING OF THE  
CZ-AT EEG

15. April, 2009 Prague

## Systems emerge around the world



## **EU vision of a global Carbon market**

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- EU has the vision of a broad, liquid global carbon market based on deep cuts in GHG emissions, in line with a 2 degree objective.
- EU vision includes achieving an OECD-wide carbon market by 2015 and the establishment and integration of trading systems in major emerging economies by 2020.

## **EU vision of a global Carbon market**

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- Transatlantic link has priority for the EU
- Could cover the major share of OECD emissions
- EU-US scheme could be the nucleus of a Global Carbon market
- Bottom-up architecture of the future climate regime

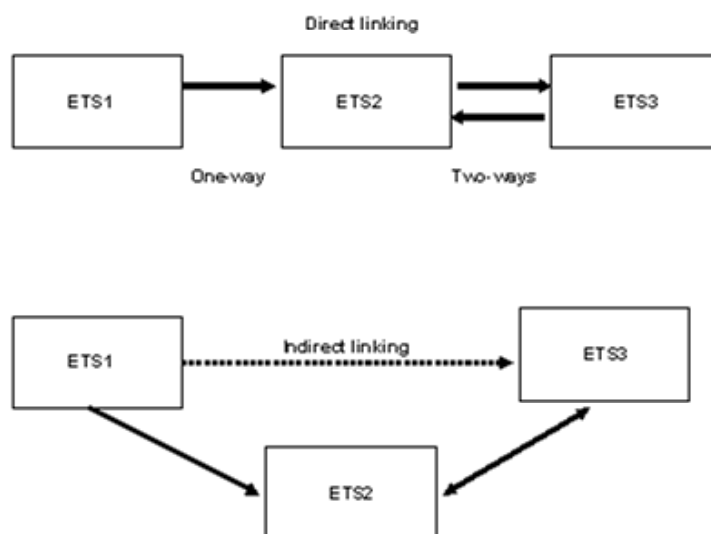
## Forms of links

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- Direkt: unilateral, bilateral
- Unlimited bilateral links lead to price convergence
- Indirect links: two systems are indirectly linked if they have a common link to a third system

## Forms of links

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## Reasons for linking

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- Economic efficiency
- Reduced volatility?
- Political reasons

## Barriers for linking

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- Most barriers can be resolved (different offset provisions, auctioning provisions, registries...)
- Harmonisation is needed for cost-containment measures such as price caps, borrowing
- Comparable stringent cap politically required

## Price management in the EU and the US

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- EU: Very limited: Possibility to move forward auctions to address excessive price volatility
- US: price caps and borrowing discussed for a long time

## New US cap and trade proposal: Waxman Markey-bill

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**Is it the begin of a new US Climate policy?**

**To a certain extent: yes**

- Would cover 85% of the economy
- Reduction of 20% by 2020 (compared to 2005)
- 83 % reduction by 2050
- No price cap, but strategic reserve

## **Price management with the strategic reserve: Controlling price and quantity**

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- A specified amount of allowances will be set aside each year for a “Strategic Reserve”, and in addition purchase of REDD credits
- Allowances are to be auctioned on a quarterly basis subject to a specified minimum auction price and a quantitative limit on the amount of allowances to be auctioned

## **Price management with the strategic reserve**

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- Initial minimum price set at 100 percent above a rolling 36-month average
- Intended to avoid significant near-term price increases,
- Quantitative limit is initially set at 5% and, after 2017, at 10% of the aggregate number of allowances for each year.

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**Thank you!**

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