

Key Findings of the Report

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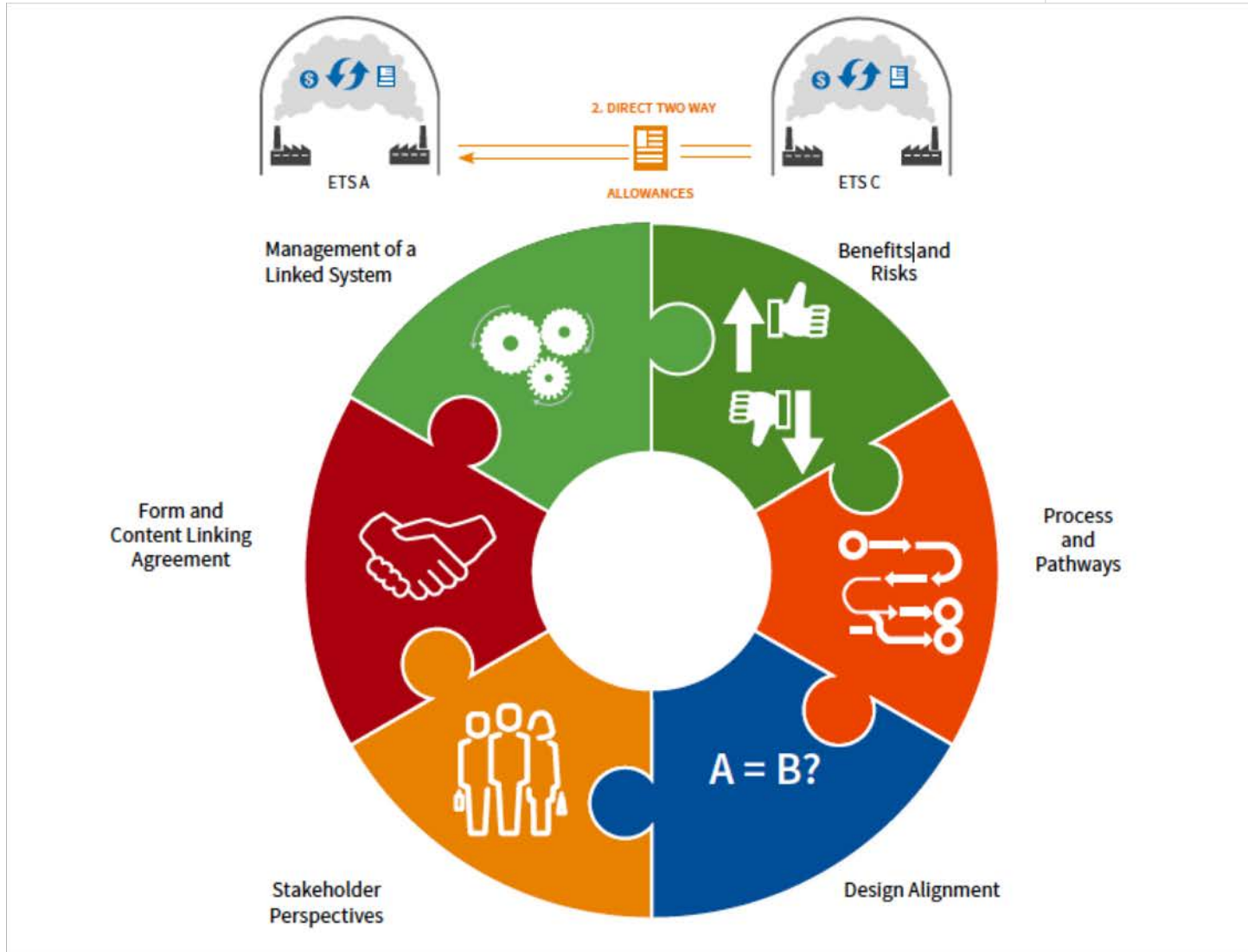
A Guide to Linking Emissions Trading Systems

2018 Report




International Carbon
Action Partnership

Linking Guide Objectives



Benefits & Risks



	Potential Benefits of Linking	Potential Risks of Linking
Economic 	<ul style="list-style-type: none">Increases cost efficiencyIncreases market liquidity and ability to absorb shocksCreates an even playing field and reduces leakage	<ul style="list-style-type: none">Exposure to external shocks
Environmental	<ul style="list-style-type: none">Increases environmental ambition	<ul style="list-style-type: none">Linking to a system that is not equally robustIncentivizes weak reduction targets
Political/Administrative	<ul style="list-style-type: none">Creates momentum for climate action and leadershipStreamlines administrative processes	<ul style="list-style-type: none">Distributional concernsScale of capital flowsContagion of design features if not harmonizedPartial loss of domestic control over the system

Process & Pathways



Implement

- Resolve technical details
- Operationalize and launch linked market

Negotiate

- Agenda & relevant bodies
- Understand each others' systems & regulatory framework
- Analytical work

Genesis

- Possibility of linking
- Elements of a successful link

Design Alignment



The level of ETS design alignment is ultimately a **political decision**

- In practice, systems have aligned their systems to a higher degree than would be necessary to link

Design Alignment



System robustness

Is a tonne of emissions the same across the jurisdictions?



Robust **MRV** processes & accounting are critical

Sufficient capacity to monitor and enforce (surrender obligations, out market oversight & impose penalties)

Design Alignment

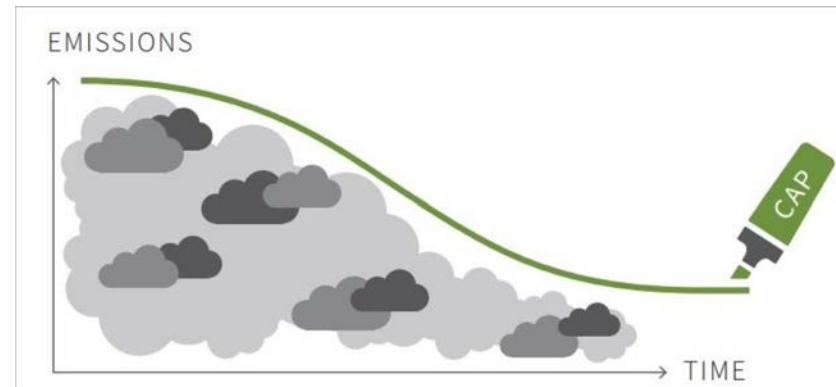


Criteria to consider when discussing alignment



Environmental ambition

Will the partner's ETS drive a certain level of mitigation?



Understand & be satisfied with their partner's **cap**

Consider: **market intervention mechanisms** (price floors & other adjustment mechanisms), **borrowing & offsets**

Design Alignment



Criteria to consider when discussing alignment



Possible side effects

Adverse: competitiveness concerns or automatic propagation?

Beneficial: take advantage of partner's design or increased stringency



Competitiveness: **Gas/sector coverage** and **allocation**

Automatic propagation: flexibility mechanisms (**offsets, banking, borrowing**) & quantity-based controls (**price floors, ceilings & other adjustment mechanisms**).

Stakeholder Engagement

- **When:** initial discussions, implementation

- **Key aspects**



Clarity on process & treatment of responses



Transparent & accessible communication



External experts can facilitate process and conduct analyses



Form & Content of Linking Agreement



- Establishes wider governance framework
- Solidifies partnership, sets shared understanding of goals and coordination
- Different forms: Treaties & MoUs

Management



- Coordination structures for
 - Day-to-day: market monitoring, info sharing, registries, auctions...
 - To respond to **changes** to the market: planned and unexpected
- Dedicated **service organization** can reduce costs, increase efficiencies & depoliticize
- Consider potential impacts of **delinking** to minimize impact on rest of market

Conclusion & Future Outlook



- Linking can come in many forms
- Experiences with linking can make future linking ventures easier
- Linking is not the main purpose of an ETS
 - Focus on building a system that fits the priorities of your jurisdiction & can drive emissions reductions
 - But linking may make emissions trading possible for some jurisdictions



Thank you!