Key Findings of the Report
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Linking Guide Objectives

- Management of a Linked System
- Benefits and Risks
- Form and Content Linking Agreement
- Process and Pathways
- Stakeholder Perspectives
- Design Alignment
- A = B?
### Benefits & Risks

<table>
<thead>
<tr>
<th>Economic</th>
<th>Potential Benefits of Linking</th>
<th>Potential Risks of Linking</th>
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<tbody>
<tr>
<td></td>
<td>Increases cost efficiency</td>
<td>Exposure to external shocks</td>
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<td>Increases market liquidity and ability to absorb shocks</td>
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<td></td>
<td>Creates an even playing field and reduces leakage</td>
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<td>Environmental</td>
<td>Increases environmental ambition</td>
<td>Linking to a system that is not equally robust</td>
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<td>Incentivizes weak reduction targets</td>
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<td>Political/Administrative</td>
<td>Creates momentum for climate action and leadership fostering</td>
<td>Distributional concerns</td>
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<td>Streamlines administrative processes</td>
<td>Scale of capital flows</td>
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<td></td>
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<td>Contagion of design features if not harmonized</td>
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<td>Partial loss of domestic control over the system</td>
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Process & Pathways

Genesis
- Possibility of linking
- Elements of a successful link

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

Implement
- Resolve technical details
- Operationalize and launch linked market
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!